RESPONDING TO A CHANGING WORLD

ANNUAL REPORT **2018**

KLN

Kerry Logistics Network Limited

0636.HK

QUICK FACTS

53
countries & territories

40,000+
employees worldwide

60M ft^2
land & facilities

10,000+
self-owned operating vehicles

CONTENTS

CORPORATE INFORMATION & KEY DATES

BOARD OF DIRECTORS

Executive Directors
Mr YEO George Yong-boon (Chairman)
Mr MA Wing Kai William (Group Managing Director)
Mr KUOK Khoon Hua
Mr NG Kin Hang

Non-executive Director
Mr CHIN Siu Wa Alfred

Independent Non-executive Directors
Ms KHOO Shulamite N K
Mr WAN Kam To
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok
Mr ZHANG Yi Kevin

AUDIT AND COMPLIANCE COMMITTEE

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

REMUNERATION COMMITTEE

Ms KHOO Shulamite N K (Chairman)
Mr YEO George Yong-boon
Mr KUOK Khoon Hua
Mr WAN Kam To
Mr ZHANG Yi Kevin

NOMINATION COMMITTEE

Mr YEO George Yong-boon (Chairman)
Mr KUOK Khoon Hua
Ms KHOO Shulamite N K
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok

FINANCE COMMITTEE

Mr YEO George Yong-boon (Chairman)
Mr MA Wing Kai William
Mr NG Kin Hang

RISK MANAGEMENT COMMITTEE

Mr MA Wing Kai William (Chairman)
Mr NG Kin Hang
(plus two members of the senior management, who are non-members of the Board)

COMPANY SECRETARY

Ms LEE Pui Nee

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISER

Davis Polk & Wardwell

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

CORPORATE HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

INVESTOR RELATIONS

T 852 2410 3600
F 852 2480 5958
E ir@kerrylogistics.com

WEBSITE

www.kerrylogistics.com

KEY DATES

Annual General Meeting
31 May 2019

Closure of Registers of Members
28 to 31 May 2019 and 6 June 2019

Proposed Payment of Final Dividend
20 June 2019

FINANCIAL HIGHLIGHTS

IN HK$M

TURNOVER

▲ 24%

38,139

SEGMENT PROFIT IL

▲ 14%

2,111

SEGMENT PROFIT IFF

▲ 7%

549

CORE OPERATING PROFIT

▲ 11%

2,364

CORE NET PROFIT

▲ 12%

1,326

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS

▲ 15%

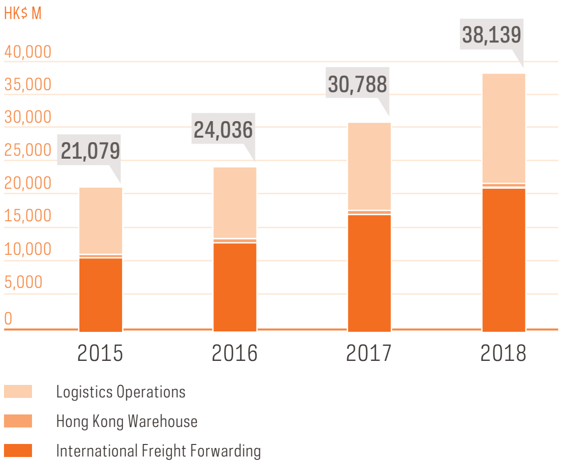
2,440

FINAL DIVIDEND
16
HK CENTS
PER SHARE

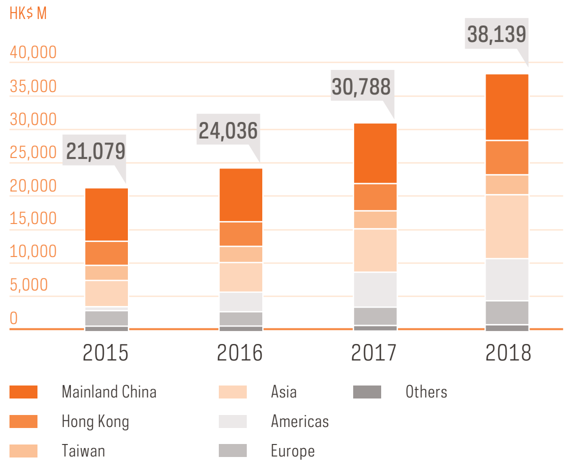
GROSS GEARING

45.7%

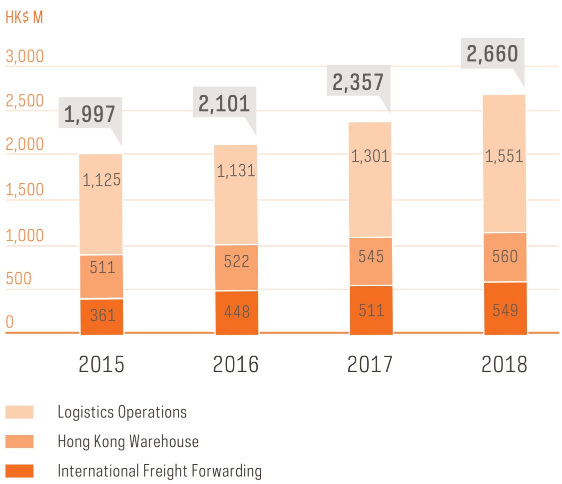
1 TURNOVER BY SEGMENT



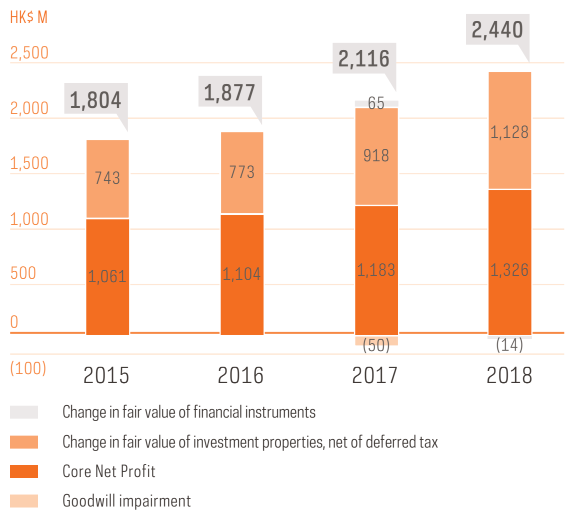
2 TURNOVER BY REGION



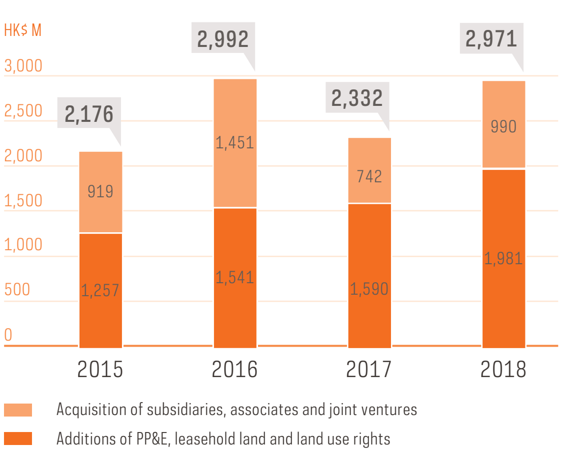
3 SEGMENT PROFIT



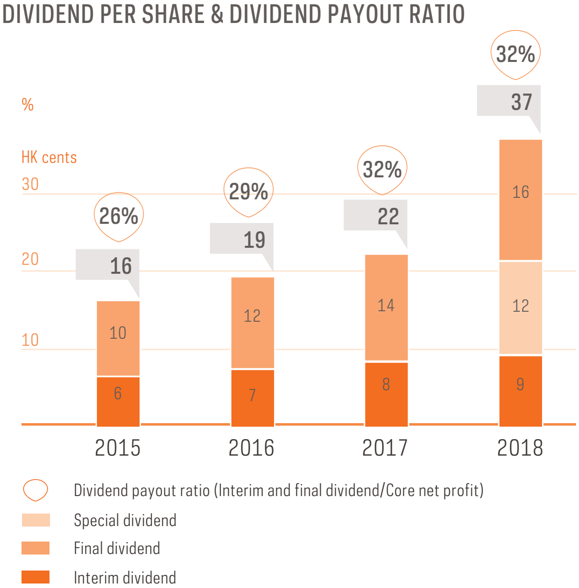
4 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS



5 CAPEX



6 DIVIDEND PER SHARE & DIVIDEND PAYOUT RATIO



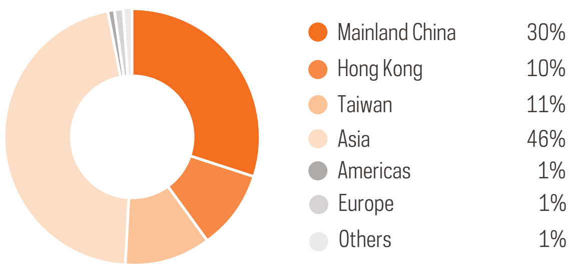
2014 - 2018 FINANCIAL SUMMARY

Income statement	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Turnover	38,138,528	30,787,654	24,035,567	21,079,494	21,115,249
Operating profit	3,491,694	3,063,853	2,677,360	2,578,014	2,328,355
Finance costs	(224,245)	(159,825)	(145,209)	(134,650)	(102,419)
Share of results of associates and joint ventures	110,734	64,784	101,003	103,125	91,377
Profit before taxation	3,378,183	2,968,812	2,633,154	2,546,489	2,317,313
Taxation	(506,561)	(469,350)	(397,596)	(401,323)	(352,981)
Profit after taxation	2,871,622	2,499,462	2,235,558	2,145,166	1,964,332
Non-controlling interests	(431,847)	(383,565)	(358,356)	(340,721)	(305,502)
Profit attributable to the Shareholders	2,439,775	2,115,897	1,877,202	1,804,445	1,658,830
Represented by:					
Core net profit	1,326,330	1,183,063	1,104,024	1,060,678	975,993
Change in fair value of investment properties, net of deferred tax	1,127,445	917,834	773,178	743,767	682,837
Change in fair value of financial instruments	(14,000)	65,000	–	–	–
Goodwill impairment	–	(50,000)	–	–	–
Profit attributable to the Shareholders	2,439,775	2,115,897	1,877,202	1,804,445	1,658,830

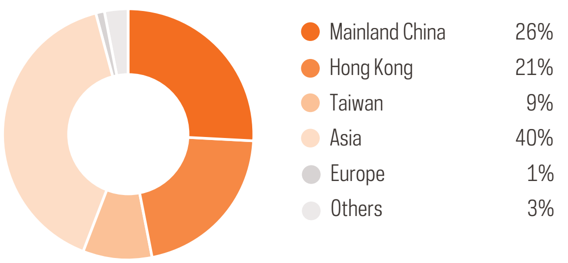
Assets and liabilities	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Non-current assets	28,148,752	25,998,821	22,367,726	19,430,936	17,678,987
Net current assets	2,565,010	1,797,767	3,582,096	2,540,753	3,791,681
Total assets less current liabilities	30,713,762	27,796,588	25,949,822	21,971,689	21,470,668
Long-term liabilities and non-controlling interests	(10,670,489)	(9,972,927)	(10,649,919)	(6,542,469)	(6,799,879)

LOGISTICS FACILITIES

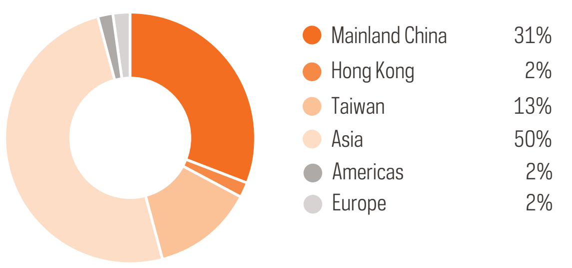
1 FACILITIES BY REGION



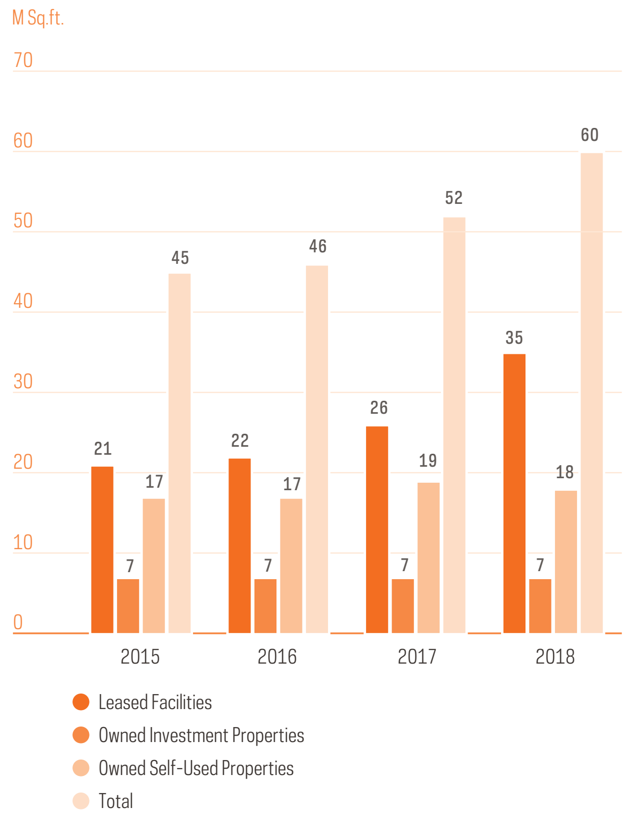
2 OWNED FACILITIES BY REGION



3 LEASED FACILITIES BY REGION



4 GFA GROWTH



PARTICULARS OF MATERIAL LOGISTICS FACILITIES

		Usage type	Approximate GFA owned Total (sq.ft.)	Attributable (sq.ft.)	(%)
A.	**Properties classified as Investment Properties**				
1.	**Kerry Cargo Centre** 55 Wing Kei Road, Kwai Chung, New Territories, Hong Kong Kwai Chung Town Lot No. 455	Warehouse	1,443,356	1,443,356	100.0
2.	**Song Than Logistics Centre** 20 Thong Nhat Boulevard, Song Than Industrial Zone 2, Di An District, Binh Duong Province, Vietnam	Logistics centre	789,012	789,012	100.0
3.	**Kerry TC Warehouse 1** 3 Kin Chuen Street, Kwai Chung, New Territories, Hong Kong	Warehouse	659,783	659,783	100.0
4.	**Kerry Warehouse (Tsuen Wan)** 3 Shing Yiu Street, Kwai Chung, New Territories, Hong Kong Kwai Chung Town Lot No. 452	Warehouse	591,973	591,973	100.0
5.	**Kerry Warehouse (Chai Wan)** 50 Ka Yip Street, Chai Wan, Hong Kong	Warehouse	535,037	535,037	100.0
6.	**Kerry TC Warehouse 2** 35 Wing Kei Road, Kwai Chung, New Territories, Hong Kong Kwai Chung Town Lot No. 437	Warehouse	490,942	490,942	100.0
7.	**Kerry Warehouse (Shatin)** 36-42 Shan Mei Street, Shatin, New Territories, Hong Kong	Warehouse	431,530	431,530	100.0
8.	**Kerry Tampines Logistics Centre** 19 Greenwich Drive, Tampines Logistics Park, Singapore	Logistics centre	371,466	371,466	100.0
9.	**Kerry Kunshan Logistics Centre Phase 2** No. 118 Yuxi Middle Road, Qiandeng Town, Kunshan, China	Logistics centre	363,092	363,092	100.0

		Usage type	Approximate GFA owned Total (sq.ft.)	Attributable (sq.ft.)	(%)
A.	**Properties classified as Investment Properties** (continued)				
10.	**Kerry Warehouse (Sheung Shui)** 2 San Po Street, Sheung Shui, New Territories, Hong Kong	Warehouse	356,253	356,253	100.0
11.	**Kerry Warehouse (Kwai Chung)** 4-6 Kwai Tai Road, Kwai Chung, New Territories, Hong Kong	Warehouse	286,628	286,628	100.0
12.	**Kerry Warehouse (Fanling 1)** 39 On Lok Mun Street, On Lok Tsuen, Fanling, New Territories, Hong Kong	Warehouse	283,580	283,580	100.0
13.	**Kerry Xi'an Logistics Centre** North of Shihua Da Road, East of Raochengdong Fu Road, Fengdong New Town, Xian New District, China	Logistics centre	276,058	276,058	100.0
14.	**Shenzhen Kerry Futian Logistics Centre** No. 15 Tao Hua Road, Futian Free Trade Zone, Shenzhen, China	Logistics centre	268,656	268,656	100.0
15.	**Kerry Chongqing Logistics Centre Phase 1** No. 69 Baohuan Road, Huixing Street Block, Yubei District, Chongqing, China	Logistics centre	224,976	224,976	100.0
16.	**Vietnam Danang Logistics Centre** Street No. 3, Hoa Khanh Industrial Zone, Lien Chieu District, Da Nang City, Vietnam	Logistics centre	116,444	116,444	100.0

		Usage type	Approximate GFA owned Total (sq.ft.)	Attributable (sq.ft.)	(%)
B.	**Properties classified as Warehouse, Logistics Centres and Port Facilities**				
1.	**Kerry Siam Seaport** 113/1 Moo 1, Silo Road, Tungsukha sub-district, Sriracha District, Chonburi Province, Thailand	Warehouse & Port facilities	6,366,549 (site area)	5,088,146 (site area)	79.9
2.	**Kerry Shanghai Fengxian Logistics Centre** 12th Street, Qingcin Town, Fengxian District, Shanghai, China	Logistics centre	1,196,734	1,196,734	100.0
3.	**Kerry Indev Irungattukottai Inland Container Depot** Plot Numbers A11, A12, B7 & B8, SIPCOT Industrial Park, Irungattukottai, Sriperumbudur, Tamilnadu, India	Warehouse & Container depot	850,735 (site area)	425,368 (site area)	50.0
4.	**Kerry Chongqing Logistics Centre Phase 2** No. 69 Baohuan Road, Huixing Street Block, Yubei District, Chongqing, China	Logistics centre	707,878	707,878	100.0
5.	**Australia Adelaide Logistics Centre** 4 Martin Avenue, Gillman, Adelaide, South Australia	Container terminal & logistics centre	668,817	668,817	100.0
6.	**Chengdu Longquan Logistics Centre** North of Line 13 and West of Guihua, Second Road, South District, Bohe Town, Chengdu, Economic & Technological Development Zone, China	Logistics centre	608,097	608,097	100.0
7.	**Linkou Logistics Centre** Number 58, Dinghu Road, Guishan District, Taoyuan City 333, Taiwan	Logistics centre	473,087	234,982	49.7
8.	**Shenzhen Kerry Yantian Port Logistics Centre** Lot No. 26, South Area of Yantian, Port Free Trade Zone, Shenzhen, China	Logistics centre	464,741	255,607	55.0
9.	**Kerry Xiamen Logistics Centre** No. 18 Haijing South Road, Export Processing Zone, Haicang District, Xiamen, China	Logistics centre	449,172	449,172	100.0
10.	**Kerry Bangna Logistics Centre** 33/2 Moo7, Bangpla District, Bangplee, Samutprakarn 10540, Thailand	Logistics centre	410,959	410,959	100.0
11.	**Thailand Eastern Seaboard Logistics Centre** Hemaraj Eastern Seaboard Industrial Estate, Land Plot B13 Tambon Tasith Amphur Plukdaeng, Rayong, Thailand	Logistics centre	374,110	374,110	100.0

		Usage type	Approximate GFA owned Total (sq.ft.)	Attributable (sq.ft.)	(%)
B.	**Properties classified as Warehouse, Logistics Centres and Port Facilities** (continued)				
12.	**Kerry Zhengzhou Logistics Centre** No. 137 Yitong Street, Zhengzhou Economic & Technological Development Zone, Zhengzhou, China	Logistics centre	358,979	358,979	100.0
13.	**Kerry Wuxi Logistics Centre Phase 1** No. 2 Xinxiang Road, Wuxi, China	Logistics centre	334,629	334,629	100.0
14.	**Tai Po Product Customisation and Consolidation Centre** 12 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong	Logistics centre	275,593	275,593	100.0
15.	**Kerry Worldbridge Logistics Centre** Land Tittle No. 29369, Damnak Sangke Village, Sangkat Preak Kampeus, Khan Dangkor, Phnom Penh, Kingdom of Cambodia	Logistics centre	219,731	131,839	60.0
16.	**Thailand Laem Chabang Logistics Centre** Highway No. 7, (Bypass Laem Chabang) Nong-kham Sub-District, Sriracha District, Chonburi Province, Thailand	Logistics centre	213,254	213,254	100.0
17.	**Kerry Kunshan Logistics Centre Phase 1** No. 118 Yuxi Middle Road, Qiandeng Town, Kunshan, China	Logistics centre	203,990	203,990	100.0
18.	**Kerry Wuxi Logistics Centre Phase 2** No. 2 Xinxiang Road, Wuxi, China	Logistics centre	198,576	198,576	100.0
19.	**Changhua Logistics Centre** No 3, 6 & 11, Lane 170, Zhangshui Rd., Changhua City, Changhua County 500, Taiwan	Logistics centre	154,652	76,816	49.7
20.	**Kerry Waigaoqiao Logistics Centre** No. 268 De Lin Road, Waigaoqiao Free Trade Zone, Shanghai, China	Logistics centre	153,553	153,553	100.0

Kerry Changsha Logistics Centre, Changsha, Mainland China

"We worked hard to help our customers respond to the China-US trade war and persisted in expanding our global network with China as our focus."

CHAIRMAN'S STATEMENT

RESPONDING TO A CHANGING WORLD

Despite uncertainties, Kerry Logistics did well in 2018 achieving double digit growth.

We worked hard to help our customers respond to the China-US trade war and persisted in expanding our global network with China as our focus. We are widely acknowledged as the Asia specialist in logistics. In addition to Greater China, we are steadily expanding and strengthening our network in Southeast, South, Central and West Asia, and the rest of the world as well.

Looking ahead, we see three major trends affecting global logistics.

First, China's market will continue to grow and become the biggest in the world. In addition to being the world's biggest exporter, it is also becoming the world's biggest importer. We see China's Belt and Road Initiative growing in importance despite current softness in the Chinese market. Kerry Logistics will therefore broaden and deepen its reach in China selectively. Within China, the Greater Bay Area will become a major growth pole for which Kerry Logistics is positioning itself.

Second, strategic rivalry between China and the US will continue for years to come and disrupt existing global supply chains. Although the chance is good that current trade talks will be successfully concluded, we must expect new issues to arise from time to time. A certain decoupling of the Chinese and American economies is likely to come about. In order to serve our customers well, Kerry Logistics must be able to offer a range of network solutions to them. In times of trouble, we are the logistics provider for them to call on. For example, we are helping many customers divert part of their supply chain to Southeast Asia.

Third, technology is steadily disrupting all aspects of the logistics industry. Kerry Logistics is therefore increasingly becoming a tech company and will give emphasis to the use of information technology, blockchain and AI wherever practical in warehouse, fleet, freight, contract, and e-commerce management. We are strengthening our technical staff and recruiting more young men and women with technical interest. Our first hackathon in February 2019 was well-received.

The purpose of everything we do is to serve our customers well. We keep our organization flat to ensure quick response and minimize bureaucratic delays. We believe that owning our own physical assets is reassuring to many customers but we manage these assets actively so that they are always deployed where they are most needed and make the greatest impact. By doing all this, Kerry Logistics will stay nimble and agile even as our network grows in response to changing threats and opportunities in Asia and the world. Most importantly, we continue to recruit talent from all over the world and acculturate them around the core value of ESG responsibility.

GEORGE YEO
Chairman

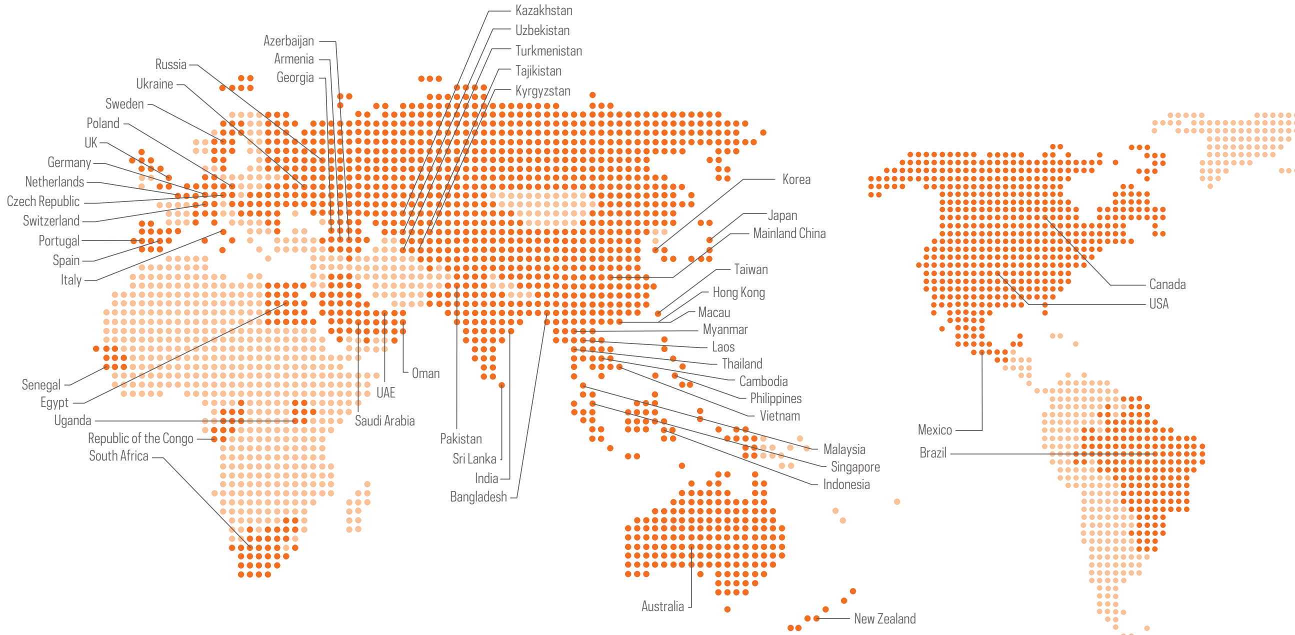
MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group recorded an increase in turnover of 24% to HK$38,139 million in 2018 (2017: HK$30,788 million). Core operating profit went up 11% to HK$2,364 million (2017: HK$2,128 million). Core net profit also rose 12% year-on-year to HK$1,326 million (2017: HK$1,183 million). Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and financial instruments, and goodwill impairment, also increased by 15% to HK$2,440 million (2017: HK$2,116 million).

	2018 HK$ million	2017 HK$ million	
Segment profit			
IL			
– Logistics operations	1,551	1,301	+19%
– Hong Kong warehouse	560	545	+3%
	2,111	1,846	+14%
IFF	549	511	+7%
	2,660	2,357	
Unallocated administrative expenses	(296)	(229)	
Core operating profit	2,364	2,128	+11%
Core net profit	1,326	1,183	+12%
Change in fair value of investment properties, net of deferred tax	1,128	918	
Change in fair value of financial instruments	(14)	65	
Goodwill impairment	–	(50)	
Profit attributable to the Shareholders	2,440	2,116	+15%

OUR GLOBAL NETWORK



MARKET OVERVIEW

Global economic growth moderated in 2018. The US-instigated trade tension, in particular with Mainland China, reverberated far and wide, casting uncertainties over the global trade landscape. In contrast, the economic growth in emerging Asia, specifically in the Southeast Asian countries, continued its strong momentum. These countries have become key links in regional manufacturing supply chains partly due to their relatively low labour costs and partly as a result of production base relocation from Mainland China to mitigate tariff risks.

With an unparalleled network in Asia, Kerry Logistics is well-positioned to capitalise on the robust growth in the region. Increasing demand in intra-Asia trade and e-commerce business accelerated the Group's IL businesses. Consequently, the Group recorded a double-digit increase in turnover, core operating profit, and core net profit in 2018, achieving positive growth for the ninth consecutive year. The Group's broad geographical coverage and diversified businesses enabled it to absorb some of the impact of the global supply chain shifts resulting from the intensifying trade tension between the US and Mainland China. The Group strengthened its presence and service capabilities in the countries along the Belt and Road trade routes to embrace long-term growth facilitated by the infrastructure developments therein.

IL GROWTH BOOSTED

Fuelled by the increased earnings from the Hong Kong logistics operations and the outstanding performances of Kerry Express Thailand as well as Kerry Siam Seaport in Thailand, the IL division registered a 14% rise in segment profit in 2018, generating 79% of the Group's total segment profit. The IL business is set to remain the main earnings driver in 2019.

HONG KONG EARNINGS CLIMBED

Underpinned by the Group's leading market position in addition to its strategy to strengthen its expertise in target verticals and deepen its penetration therein, the segment profit of the logistics operations in Hong Kong climbed by 37% in 2018. Together with the moderate growth of the warehousing business, the Group's Hong Kong business accounted for 41% of segment profit for the IL division.

In February 2019, in order to further expand its F&B logistics and trading business upstream the supply chain, the Group officially launched MeatLab. It is Hong Kong's first world-class semi-automated meat processing plant, committed to providing Hong Kong consumers with safe, reliable, and high-quality meat choices.

MAINLAND CHINA TESTED

The segment profit of the IL business in Mainland China recorded a 12% drop in 2018. The China-US trade dispute had significant impact on Chinese export trade in 2018 2H. Customers slowed down their investment and expansion plans which were set out in 2018 1H, resulting in lower-than-expected growth. In addition, many of the Group's key accounts are foreign electronics brands facing tough competition from local players, directly affecting business volumes. Taking into consideration the current market conditions, the Group is shifting to an import-focused business model to capitalise on the growth in domestic consumption.

TAIWAN MARKET STABILISED

As the impact of the labour law passed in 2016 has been cushioned by internal operation adjustments and improved operation efficiency, the Group's IL business in Taiwan stabilised with segment profit growth of 4% in 2018, contributing 19% of segment profit of the IL division.

In January 2019, the Group completed the acquisition of a majority stake in Science Park Logistics Co., Ltd, to reinforce the Group's capability in serving high-tech customers.

ASIA BUSINESS THRIVED

Supported by the strong performance of the Group's business in Thailand through Kerry Express Thailand and Kerry Siam Seaport, the IL segment profit in Asia experienced a 37% increase in 2018.

The strategic partnership Kerry Express Thailand established in July 2018 with VGI Global Media Public Company Limited, the subsidiary of BTS PLC, enabled it to use BTS Skytrain exclusively to extend its express delivery services and boost same-day delivery service in Bangkok. The berth extension of Kerry Siam Seaport, completed in 2018, allowed for increased volume and resulted in improved performance for the seaport business in Thailand.

IFF STEADILY ADVANCED

The Group's IFF division attained steady volume growth in 2018 2H as customers have frontloaded their shipment in advance of the trade tariffs being enforced. The IFF division recorded a 7% profit growth and contributed 21% to the Group's total segment profit in 2018.

NEW PROJECT LOGISTICS BRAND LAUNCHED

After the acquisition of Saga Italia S.p.A. in June 2018, the Group consolidated its industrial project logistics services under the Kerry Project Logistics brand in October 2018. The new brand was launched to capitalise on the growth potential in the global industrial project logistics market unleashed by China's Belt and Road Initiative.

SOUTH ASIA NETWORK REINFORCED

In October 2018, the Group debuted its rail and road multimodal freight service from Lanzhou, China to Islamabad, Pakistan to expand its freight capability from China to South Asia. It offers a significantly time-saving option to customers, and further heightens the Group's focus on the China-Pakistan Economic Corridor. The new subsidiary of the Group, Kerry Freight Pakistan (Private) Limited, formed in July 2018 gave the Group a direct presence in one of the markets with the highest growth potential in the region.

ASSET PORTFOLIO STRENGTHENED

The Group currently manages 60 million square feet of land and logistics facilities worldwide.

In Myanmar, Phase one of the inland port in Mandalay and the inland port in Yangon were completed in 2018.

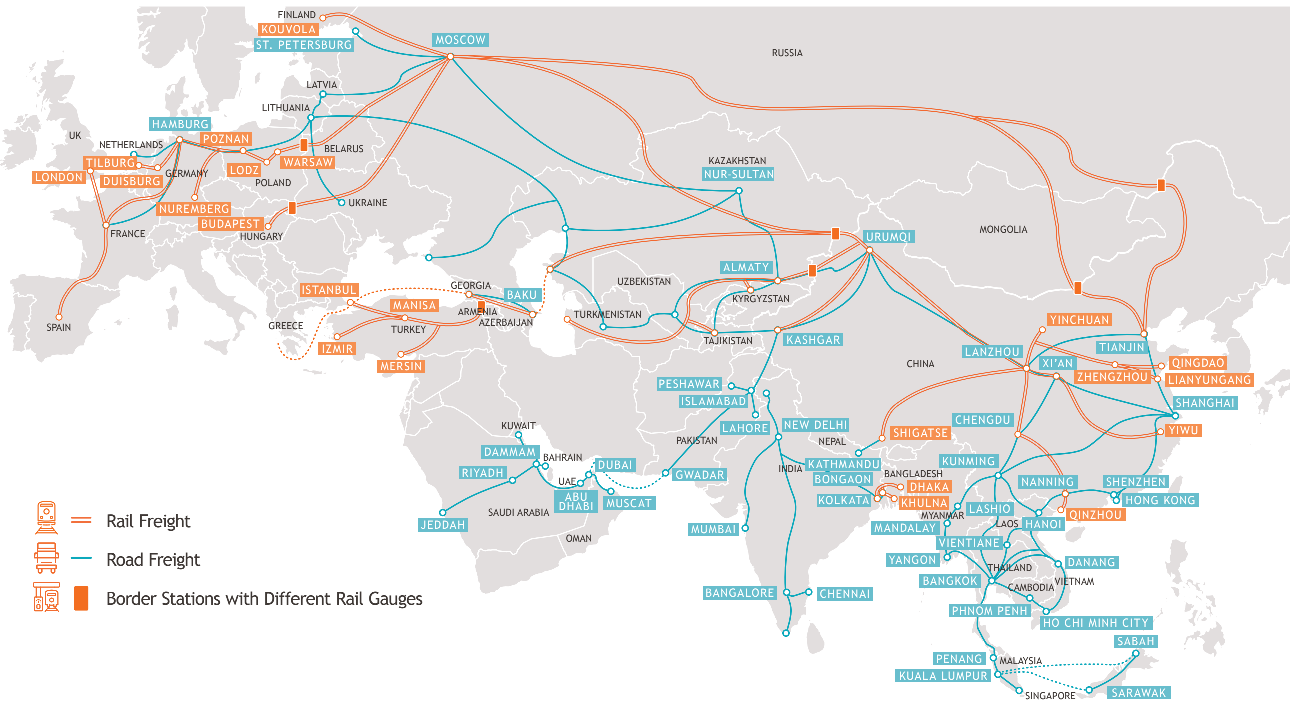
In Taiwan, due to a fire accident in February 2019, construction of the 430,000-square-feet logistics centre in Guanyin is expected to complete in 2019 Q4.

In Mainland China, the logistics centre in Changsha was completed in 2018, while the one in Wuhan is expected to complete in 2019 Q2.

In Thailand, a new fully automated parcel sorting system was installed in Phase two of the Kerry Bangna Logistics Centre in 2018, boosting Kerry Express Thailand's daily delivery capacity to over 1 million parcels. Phase three of the centre began construction in 2018 Q4.


KTZE - Khorgos Gateway
CRONOS

EURASIAN RAIL & ROAD FREIGHT NETWORK



OUTLOOK

Due to the prevailing market and trade conditions, global economic slowdown seems to be inevitable in 2019. Sales of myriad consumer products are expected to remain sluggish. Nonetheless, leveraging its solid position and diversified businesses in Asia, in particular Hong Kong, Taiwan, and Thailand, the Group is confident to continue delivering sustainable results in 2019.

DEEPENING CAPABILITIES IN LOCAL MARKETS

The sound performance of the Hong Kong, Taiwan, and Thailand businesses reinforces the Group's strategy in deepening its capabilities in local markets across various verticals, in particular fashion, F&B as well as pharmaceuticals and express.

CAPTURING EMERGING OPPORTUNITIES IN MAINLAND CHINA

The fast-changing logistics landscape in Mainland China called for innovation and flexibility in order to capture and serve new and emerging business models and brands. The Group is making significant efforts in boosting performance through speeding up response time to customers' evolving needs and tapping into the expanding import sector.

MAINTAINING MOMENTUM IN ASIA

Stronger growth is anticipated to persist in Asia, particularly in Southeast Asia and India, owing to increasing domestic consumption and rising investment. Leveraging its established network in Asia to take advantage of the booming intra-Asia trade, the Group's business growth in Asia is expected to maintain in 2019.

MAXIMISING SHAREHOLDER VALUE

As a part of its long-term strategy of unlocking the value of its warehouse property portfolio to power its enduring expansion and maximise shareholder value, the Group will dispose of, subject to the approval of the independent shareholders of the Company and completion, its warehouses in Chai Wan and Shatin to KPL through an indirect wholly-owned subsidiary of KPL. Upon completion, the total estimated gain of the disposal will be approximately HK$2 billion in aggregate.

FINANCIAL REVIEW

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

Most of the Group's assets and liabilities are denominated in different functional currencies of the overseas subsidiaries' respective countries. The Group generally does not enter into foreign exchange hedges in respect of its long-term equity investments in overseas subsidiaries and associates. For the foreign currency exposure arising from business activities, certain subsidiaries used forward contracts to hedge their foreign exchange exposure from trading transactions during the year, 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 31 December 2018, total foreign currency borrowings amounted to the equivalent of HK$4,380 million (including HK$2,697 million denominated in New Taiwan Dollar and HK$561 million denominated in Thai Baht), which represented approximately 46% of the Group's total bank loans of HK$9,506 million.

Out of the Group's total bank loans as at 31 December 2018, HK$4,937 million (representing approximately 52%) was repayable within one year, HK$2,185 million (representing approximately 23%) in the second year, HK$2,267 million (representing approximately 24%) in the third to fifth years and HK$117 million (representing 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 88% of total bank loans. In relation to the secured bank loans of HK$1,151 million as at 31 December 2018, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK$2,873 million, assignments of insurance proceeds of certain properties, and certain balances of restricted and pledged deposits. A majority of the bank loans were borrowed at floating interest rates and were not held for hedging purposes.

As at 31 December 2018, the gearing ratio for the Group was 45.7% (31 December 2017: 43.1%). The ratio was calculated as total bank loans and overdrafts, divided by equity attributable to the Shareholders excluding put options written on non-controlling interests.

As at 31 December 2018, the Group had total undrawn bank loan and overdraft facilities of HK$8,728 million which may be used to fund material capital expenditure. The Group will also continue to secure financing as and when the need arises.

As at 31 December 2018, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 40,300 employees. The remuneration to employees includes salaries maintained at competitive levels while bonuses are granted on a discretionary basis. The Group provides training to its staff to enhance technical and product knowledge. The Group's remuneration policies are formulated based on the performance of individual employees. Other employee benefits include provident fund, insurance, medical, sponsorship for educational or training programmes and share option schemes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This ESG Report provides an annual update of the performance in sustainable development of Kerry Logistics for the year ended 31 December 2018. The scope of this report covers major operations in the Group's integrated logistics, international freight forwarding, express delivery, supply chain solutions, industry solutions and food and beverage trading, covering more than 40 countries and spanning six continents. The report is prepared in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange. The report has been organised into six chapters focusing on the values created for our people, our customers, our supply chain, our stance in anticorruption, our community and our environment. Key initiatives undertaken by the respective business units are featured in their relevant chapters which we believe best demonstrates our commitments in generating sustained values for our stakeholders.

SUSTAINABILITY AND ESG REPORTING

We believe that sustainability is fundamental to the success of our business. Our philosophy is to create long-term value for our stakeholders that is in line with the sustainable and responsible growth of our business. We aspire to be a responsible corporate citizen and we believe that transparency and accountability are important foundations for building trust with our stakeholders.

As Asia's leading logistics service provider, we acknowledge the significance of effective sustainability practices and are actively integrating ESG systems in key business decisions. We address ESG issues both at the Group and business levels. The Board oversees the direction of our ESG practices and our business units set up individual ESG programmes that are aligned with their operations. ESG performance is measured, reviewed and reported to management regularly for continuous improvement.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We maintain an open and transparent dialogue with our stakeholders to gather their views on what ESG issues matter most. Given our operations span across a wide spectrum of industries, we deal with various types of stakeholders, including employees, customers, suppliers, shareholders, investors, the media and local communities. We engage our key stakeholders on a regular basis across various platforms, such as meetings, interviews, surveys and workshops, to gauge their expectations and feedback on how we could address ESG issues in the best manner. This ESG report serves as an important tool to address the key concerns and interests of our stakeholders. Based on the inputs of our key stakeholders, we have prioritised aspects relating to environmental discharges, use of resources, employment and labour standards, operating practices and community outreach. Key initiatives and activities are summarised in the rest of this report.

VALUE CREATED FOR OUR PEOPLE

Our employees are our greatest asset and the key to our sustainable growth. None of our achievements would have been possible without the great people who work at Kerry Logistics. We are committed to creating value for our employees through rewarding careers, an embracing workplace and a healthy work-life balance.

RECRUITING AND RETAINING TALENTS

The ability to deliver sustainable growth for Kerry Logistics relies largely on a competent workforce. It is therefore of paramount importance to proactively manage our talent pipeline. In addition to taking in experienced industry experts, we recruit young talent by hosting tours for university students, advertising in the media and participating in recruitment days and career forums. We bring in new recruits and equip them with necessary skill sets to develop a long-term rewarding career with us.

The YEA, established in 2001, has been supporting our strategic growth by grooming high-calibre talent. The YEA is comprised of four systematic programmes which are tailored for candidates at various stages of their career development. This includes student interns, fresh graduates and management associates. In particular, the 12-month GT Programme and MT Programme are both tailored to develop fresh graduates, regardless of their academic background, into business leaders of tomorrow at Kerry Logistics. The GT Programme offers intensive development in a specific business in Hong Kong whilst the MT Programme provides rotations across different business streams with overseas exposure. Candidates are prepared to take on early responsibility and obtain in-depth knowledge and hands-on experience from our business, as well as guidance from senior management. The candidates can gain a fast pass to our trainee programmes through the six-month Internship Programme, prior to their graduation. In 2018, there have been 1 management associate, 8 management trainees, 13 graduate trainees and 18 interns recruited through the programmes.

Policies are in place to stipulate practices in relation to recruitment, compensation, other benefits and welfare, promotion, working hours, resting periods, equal opportunity, diversity, anti-discrimination and dismissal.

The Group's remuneration mechanism is performance based and competitive. In addition, the Group provides other benefits to employees including insurance, medical and sponsorship for educational or training programmes.

We encourage our employees to maintain a good work-life balance and regularly provide them with different kinds of support. The Group continued to invest in employees' wellbeing and participated for the tenth year in the Asia Employee Wellbeing Week, a programme which focuses on work life integration that also incorporate other aspects such as physical, emotional and financial wellbeing of employees. Employees are encouraged to leave on time and workout on company allowance.

Embracing diversity, Kerry Logistics is committed to building a supportive and inclusive environment through fair employment practices. Our Global Equal Opportunities Policy prohibits any form of harassment and discrimination with respect to age, gender, race, ethnic origin or religious belief.

PROMOTING HEALTH, SAFETY AND WELLBEING

The Group prioritises health and safety in operating our business. Our OHS Committee has been established to identify, assess and mitigate OHS-related risks across our operations. We have set up and implemented health and safety management system in line with international standards such as the OHSAS 18001. Our Standard Operating Procedures provides employees with methodologies and tools to effectively identify OHS hazards and assess the associated risks. Our employees are trained and encouraged to report on potential hazards.

Our extensive safety training programmes equip our employees with the adequate awareness and knowledge to carry out their jobs safely. New joiners are required to attend OHS orientation and pass assessments before taking on their job duty such as forklift operation. Regular refresher training is provided to keep our employees updated with the latest OHS regulatory requirements. Safety training materials are also available on the e-learning platform to facilitate learning anywhere and anytime. Campaigns such as "safety month" and forklift operation competitions are organised to strengthen safety awareness and culture.

As a leading logistics service provider in Asia, Kerry Logistics puts safety as its priority. Strict regulatory compliance on goods transport, handling and warehousing are expected, managed and monitored. For instance, only designated and trained staff are assigned to handle dangerous goods. The Group also sponsors external training programmes and encourages staff to obtain relevant safety certifications.

Regular fire drills and emergency evacuation simulations are arranged to equip employees with knowledge and skills in the event of an emergency.

To support our employees' mental health, the Employee Assistance Programme provides a 24-hour counselling hotline and professional advice on the handling of work, family and personal related stress to our employees and their direct family members. As part of our commitment to foster the health and well-being of employees, corporate sport events such as Kerry Challenge Cup were held to raise employee awareness about the benefits of physical activity.

DEVELOPMENT AND TRAINING

The Group acknowledges the importance of empowering its people through development and training. Our training programmes are designed to meet our business vision not only for developing a skilled workforce as a means to develop future leaders, but also for the benefit of society as a whole. We organise various hard and soft skill training classes to enhance our services to customers. These include, for example, the Golden Rules of Customer Service training which improves language proficiency for customer-facing staff to enable better customer communication.

LABOUR STANDARDS

Kerry Logistics strictly prohibits the use of child and forced labour in our operations and expects our suppliers to adhere to the same standards. Whilst no such incident has been reported, we have set up robust mechanisms for preventing, monitoring, and reporting such practices. We review supplier practices and incorporate relevant requirements in their human resources policies to assist them in implementing these into their operation.

REGULATORY COMPLIANCE

During the reporting period, we were not aware of any non-compliance with laws and regulations that could have a significant impact on the Group relating to employment, OHS, or labour standards.

VALUE CREATED FOR OUR CUSTOMERS

As a leading logistics service provider in Asia serving top international brands, the Group endeavours to create value for our customers and help them build their competitive edge through our trusted and innovative solutions.

DRIVING SERVICE EXCELLENCE

At Kerry Logistics, we regard service quality as one of the key competitive advantages of our business and integrate it in our day-to-day operations. The Group Quality Policy sets a high standard and demonstrates our commitment to service excellence. We continue to recognise and adopt advanced industry practices. Quality management systems in accordance with internationally recognised frameworks have also been established and well adopted at our major operations to uphold service quality. Our quality accreditations are listed on the Company's website.

We address the specific business needs of our customers by offering high-quality and cost-effective supply chain solutions which leverage on our wide range of industry experience. For example, we have been successful in offering industry specific solutions to sectors including electronics and technology, food and beverage, fashion and lifestyle, fast-moving consumer goods, industrial and material sciences, automotive and pharmaceutical and healthcare industries. Our one-stop services range from vendor-managed inventory, cold chain management, nationwide warehousing and distribution to return management. In addition to being certified compliant to the ISO9001 quality management system standard and the Facility Security Requirements of the Transport Asset Protection Association, we have also achieved the ISO22000 certification for an international logistics project with Hong Kong's largest food and beverage company this year.

Our long-term relationship with customers attests to our quality and reliable services. Our dedication to service excellence is also recognised through various awards. Kerry Logistics received four awards at the Supply Chain Asia Awards 2018, earning the titles of "Asian 3PL of the Year" and "Care & Positive Work Environment of the Year" together with "Overall Supply Chain Partner of the Year" from the Supply Chain Asia Magazine for our outstanding contributions in serving the world's top brands in the field of supply chain and logistics. In addition, our Chairman, Mr YEO George Yong-boon was crowned at the same event as one of the Honorary Fellows for his expertise, seniority, and extensive experience in the logistics industry. We were also regarded as the "Outstanding Global 3PL" at the Quamnet Outstanding Enterprise Awards 2018 for our contribution to the logistics industry. A list of awards that we have obtained during the year has been detailed in the section headed "Awards and Citations" in this annual report.

Please refer to page 33
Awards and Citations →

IMPLEMENTING INNOVATION

With the growth of the logistics market, radio-frequency identification (RFID) technology has been developed and utilised in one of the international logistics projects during the year. We have equipped our clients' products with RFID tags to facilitate automatic scanning and identification. The newly adopted technology enabled the reduction of manpower for packing and scanning, thereby improving efficiency in tracking the movement of goods. The easy and low-cost implementation of RFID technology is one of the strategies used for business process optimisation and cost saving.

KerrierVISION, a real-time internet-based solution, was developed to offer personalised support to our customers on tracking of inventory, freight, purchase order and delivery. As part of the KerrierVISION, the ePOD and Track & Trace system provides information for several business units about the road freight by tracking the location of the trucks, the remaining time to the destination and the remaining distance to the destination. The ePOD and Track & Trace system allows Kerry Logistics to closely monitor the status of the delivery and provide timely notification to customers in the event of any delays.

Moreover, to encourage innovation in our services, we encourage our employees to contribute creative ideas to enhance our services through a cash reward programme.

ENHANCING CUSTOMER EXPERIENCE

Customer feedback is vital to our persistent pursuit of service excellence. We collect, assess and act on the inputs from our customers to meet or exceed our pledged service levels and their expectations. Our Group-level enquiry and complaint handling procedures, for example, stipulate that complaints should be acknowledged by written response within 24 hours upon receipt, followed up by comprehensive follow-up procedures and remedial actions if the complaint is substantiated and valid. This forms part of our performance assessment criteria.

With the development of mobile technology and increasing integration of online and offline customer experience, our express business has designed, developed and deployed an application to extend shipment tracking to mobile devices. This allows our customers to easily track shipment progress anytime and anywhere. As of the end of 2018, the mobile tracking application has reached over 4,670,000 downloads.

PROTECTING CUSTOMERS

The Group treats customer data with complete confidentiality and handles such data with due care. Our ISO27001-compliant information security management system guides our information management practices. An Information Security Management Policy is in place to prevent loss and leakage of confidential information, including customer data. The policy is well communicated to our employees during induction or through regular refresher training. Well-established procedures are in place to guide the use of customer information for advertising of our services.

REGULATORY COMPLIANCE

In 2018, we were not aware of any incidents of noncompliance with laws and regulations that could have a significant impact on the Group concerning product responsibility.

VALUE CREATED FOR OUR SUPPLY CHAIN

We work closely with a wide spectrum of suppliers such as airlines, shipping companies and landlords of leased logistics facilities to support our strong distribution network, which connects with more than 40 countries. We continue to strengthen the sustainability of our supply chain performance through building a collaborative and "win-win" relationship with our suppliers.

OPTIMISING COLLABORATION WITH SUPPLIERS

Kerry Logistics has a stringent supplier selection and management process in place. Prior to working with a new supplier, we conduct stringent supplier qualification assessments to ensure that they meet our standards and share our values. We remain vigilant on supply chain risks including those related to ESG through systematic performance evaluation and monitoring. This allows us to put contingency plans in place in advance to maintain high service reliability and business continuity. Performance of existing suppliers in areas such as quality, environmental management and occupational health and safety are evaluated regularly. Suppliers that fail to meet our performance are required to take timely correction and/or corrective actions; otherwise they will be suspended from doing business with us. In 2018, over 700 suppliers of our headquarters in Hong Kong have gone through our performance evaluation and around 90% of them retained acceptable or above performance.

We exert positive influence on our suppliers and work closely with them to meet our ESG standards by assisting them to understand the standards. Our suppliers are expected to adhere to our Social Responsibility Policy, which requires strong commitments to good ESG practices concerning ethical conduct, health and safety, employment and human right practices and environmental sustainability. We regularly converse with our suppliers to share knowledge and experience on good industry practices and exchange ideas to improve the overall sustainability of our supply chain performance.

Community Involvement Strategy of Kerry Logistics

ANTI-CORRUPTION

We operate our business with integrity, transparency and accountability. Our Global Anti-bribery Policy is well conveyed to employees through mandatory induction training. The Board sets a standard of zero tolerance to any form of bribery, corruption, extortion, money laundering or fraud. Malpractices are to be detected by use of effective monitoring and management controls that are in place. Meanwhile, our Whistleblowing Policy enables employees and third parties to report observed and suspected misconducts, irregularities and malpractices in a confidential manner. Reported cases will be followed up in a timely manner; confirmed cases will be reported to the Audit and Compliance Committee and management.

REGULATORY COMPLIANCE

During the year, the Group was not aware of any breach of laws and regulations that could have a significant impact on the Group relating to anti-corruption.

VALUE CREATED FOR OUR COMMUNITY

Kerry Logistics has committed itself to serving the community by leveraging its talents, resources and networks. Our community involvement focus during the year demonstrates our care towards the youth, the underprivileged and the environment. In 2018, our headquarters in Hong Kong raised funds and contributed employee volunteering hours to support community initiatives run by different charitable organisations.

YOUTH DEVELOPMENT

Our future lies in the hands of the youth. We always support initiatives and organisations that promote the rights and well-being of the children. During the year, we raised funds for UNICEF and engaged our employees to participate in various charitable activities. Some of the activities are the UNICEF Charity Run, the UNICEF Star Wars Dress Up Day, and the Hong Kong Disneyland Marvel 10K Weekend running race.

SUPPORTING THE UNDERPRIVILEGED

We work to create a positive impact on society by helping those in need. We continue to support the development and education of children of migrant workers in major cities in Mainland China. In addition to providing free cold storage and distribution services to facilitate the supply of fresh and perishable food for families in need in Taiwan, we have also built an online platform for them to sell their agricultural products.

We are a supporter of a number of non-profit and charitable organisations aiming to improve the wellbeing of the underprivileged. Our involvement includes monetary support, participation in community and charitable events, and in-kind support for community events, such as Race for Water, Goodman Magic Mile Charity Run 2018, Walk Up Jardine House 2018 and Hong Kong Marathon – Corporate Challenge during the year.

ENVIRONMENTAL CONSERVATION

We believe that a good corporate citizen should take up the responsibility of building a greener and more sustainable community. In 2018, we participated in the "Green Power Hike" organised by Green Power, a Hong Kong-based NGO dedicated to public environmental education, and raised funds through the hike for its work to encourage green practices. We also promote environmental awareness by planting trees in Mainland China. In Taiwan, we co-ordinated voluntary beach cleanup events to put environmental conservation into actions.

VALUE CREATED FOR OUR ENVIRONMENT

Operating with an asset ownership model for greater service reliability and flexibility, we recognise that it is our responsibility to manage our environmental footprint, especially for self-owned logistics facilities. We work to make our operations greener through managing emissions, optimising the use of resources and protecting the natural environment and ecosystems that we rely on.

DRIVING CONTINUOUS IMPROVEMENT

To raise awareness and identify opportunities for improvement, we have established EMS accredited to the ISO14001 standard and implemented it at the business unit level in Hong Kong, Mainland China and Singapore.

At our headquarters in Hong Kong, we have set up a Green Committee comprised of heads of key departments and business units to steer environmental initiatives. As part of the EMS, the Committee operates an "Annual Green Program" with an aim to monitor, improve and communicate environmental performance at our logistics operations.

SAVING ENERGY AND MANAGING GHG EMISSIONS

Guided by the Group's Environmental Policy, we endeavour to minimise our environmental footprint through reducing air and GHG emissions, optimising waste management and managing discharges to land and water.

In Hong Kong, we own and operate a fleet of 280 commercial vehicles and over 85% of them are Euro IV or more efficient models. Among these, 41 pre-Euro IV vehicles are scheduled to be replaced throughout 2019. We also deployed three hybrid trucks for logistics projects, as a participant to the Pilot Green Transport Fund supported by the Environmental Protection Department of the HKSAR Government. The Fund is established to support the testing of green and innovative technologies to the local public transport sector and goods vehicles.

To cut air and GHG emissions from our logistics business, we communicate good driving practices to our drivers of in-house delivery team and sub-contractors through offering them safe and green driving education programs. These include, for example, avoiding excessive vehicle idling and driving at consistent speed. Concurrently, our logistics business strives to promote greener road freight operation. During the year, we are launching delivery services by electric vehicles in eastern China and on foot in Hong Kong to reduce vehicular emissions.

We also reduce GHG emissions through procuring and using energy efficient devices and installations. Our headquarters maintain a Green Specification List with options of environmentally friendly equipment to guide sustainable procurement practices. Since 2009, we have been progressively replacing T8 fluorescent light tubes with more energy efficient LED lamps to reduce energy consumption and associated GHG emissions at our warehouses. During the year, we extended this plan to cover the common area of nine more warehouses. As at 31 December 2018, over 6,500 light tubes have been replaced.

In addition to LED lighting installation, we are planning to replace the air conditioning system of one of our temperature controlled buildings with a more environmental friendly refrigerant cold plant for energy saving. The replacement is scheduled to be completed within two years.

Renewable energy is introduced in our operations to lower our business carbon footprint. For example, we have installed solar panels on the rooftop of our warehouses in Beijing which saves about 40,000 kWh of purchased electricity per month and avoids the associated GHG emissions.

RESPONSIBLE WASTE MANAGEMENT AND MATERIAL USE

To promote responsible material use and waste management practices, we encourage our employees to reuse wooden pallets, boxes and cardboard containers as many times as possible prior to recycling. Durable logistics carts and plastic containers are preferred to avoid wasteful replacements as much as possible.

To reduce paper consumption at office, we are migrating from traditional hard copies to electronic copies for documentation. For example, during the year we have digitalised our expense claim process to minimise paper usage.

REDUCING WATER USE

The industry that we are in is not considered highly water-intensive. In spite of this, we strive to conserve water in our daily operations. For example, we harvest rainwater for irrigating plants at our PC^3 warehouse.

INCORPORATING ECO-DESIGN IN LOGISTICS FACILITIES

We recognise that the way we operate has a direct impact on the environment and natural resources. Kerry Logistics' approach to address its environmental impacts is to focus on green design. Our state-of-the-art logistics facilities in Hong Kong and Singapore, namely PC^3 and Kerry Tampines Logistics Centre, attained the LEED (Leadership in Energy and Environmental Design) (Gold) recognition for the eco-designs that benefit the environment. Additionally, PC^3 is also the first industrial building in Hong Kong being certified with HK-BEAM (Building Environmental Assessment Method) (Gold).

REGULATORY COMPLIANCE

The Group was not aware of any other non-compliance of laws and regulations that could have a significant impact on the Group relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste during 2018.

For details about our environmental performance, please refer to the data table headed "Environmental Data of the Group for the Year ended 31 December 2018" on page 31 of this annual report.

ENVIRONMENTAL DATA OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2018

The following environmental data are prepared in accordance with Appendix 27 of the Listing Rules issued by the Stock Exchange

		Environmental Data (Group)	
Environmental Data	Unit	2018	2017
Total direct energy consumption intensity (Note 1)			
By revenue	**kWh/Revenue (HKD '000)**	**21.10**	**18.22**
Total indirect energy consumption intensity (Note 2)			
By revenue	**kWh/Revenue (HKD '000)**	**3.10**	**4.13**
Water consumption intensity (Note 3)			
By revenue	**m^3/Revenue (HKD '000)**	**0.01**	**0.02**
Total packaging material intensity (Note 4)			
By revenue	**tonne/Revenue (HKD billion)**	**161**	**260**
Note 1			
Nitrogen Oxides (NO_x) emissions	tonne	1,500	450
Sulphur Oxides (SO_x) emissions	tonne	1	1
Particulate Matter (PM) emissions	tonne	123	41
Total greenhouse gas (GHG) emissions	tonne CO_2e	306,000	284,000
Scope 1 – Direct emissions and removals	tonne CO_2e	241,000	200,000
Scope 2 – Energy indirect emissions	tonne CO_2e	65,000	84,000
Total hazardous waste produced	tonne	50	58
Total non-hazardous waste produced	tonne	21,000	19,000
Total energy consumption	kWh	922,964,000	688,186,000
Total direct energy consumption	kWh	804,606,000	560,933,000
Gasoline/Petrol	kWh	26,137,000	19,458,000
Diesel	kWh	771,530,000	533,958,000
Liquefied Petroleum Gas (LPG)	kWh	6,939,000	7,517,000
Note 2			
Total indirect energy consumption	kWh	118,358,000	127,253,000
Purchased electricity	kWh	118,176,000	127,097,000
Towngas/Gas works gas consumption	kWh	182,000	156,000
Note 3			
Water consumption	m^3	484,000	507,000
Note 4			
Total packaging material	tonne	6,128	8,010

Green Power Hike 2019, Hong Kong

AWARDS AND CITATIONS

CORPORATE ACCOLADES

AWARD FOR CORPORATE GOVERNANCE EXCELLENCE

HONG KONG CORPORATE GOVERNANCE EXCELLENCE AWARDS 2018

- **PLATINUM AWARD**
- **BEST CEO (LOGISTICS) – WILLIAM MA**

THE ASSET CORPORATE AWARDS 2018

LISTED ENTERPRISES OF THE YEAR 2018

BLOOMBERG BUSINESSWEEK – LISTED ENTERPRISES OF THE YEAR AWARDS

OUTSTANDING GLOBAL 3PL

QUAMNET OUTSTANDING ENTERPRISE AWARDS 2018

- **BEST IN SECTOR: INDUSTRIALS**
- **BEST INVESTOR EVENT (SMALL TO MID-CAP)**

IR MAGAZINE AWARDS – GREATER CHINA 2018

BEST LOGISTICS & SUPPLY CHAIN SOLUTIONS COMPANY

LEGAL AWARDS 2018

INDUSTRY RECOGNITION

SEA FREIGHT AWARD

LLOYD'S LOADING LIST – GLOBAL FREIGHT AWARDS 2018

LOGISTICS AWARD

LLOYD'S LIST ASIA PACIFIC AWARDS 2018

- **ASIA-PACIFIC LOGISTICS SERVICE PROVIDER OF THE YEAR**
- **ASIA-PACIFIC ROAD TRANSPORTATION SERVICE PROVIDER OF THE YEAR**

2018 FROST & SULLIVAN ASIA PACIFIC BEST PRACTICES AWARDS

- **BEST 3PL**
- **BEST LOGISTICS SERVICE PROVIDER – AIR FREIGHT**

2018 ASIAN FREIGHT, LOGISTICS & SUPPLY CHAIN AWARDS

- **OVERALL SUPPLY CHAIN PARTNER OF THE YEAR**
- **ASIAN 3PL OF THE YEAR**
- **CARE & POSITIVE WORK ENVIRONMENT OF THE YEAR**
- **HONORARY FELLOW – GEORGE YEO**

SUPPLY CHAIN ASIA AWARDS 2018

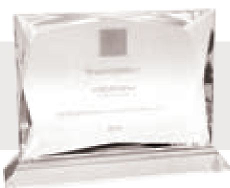
SUPPLY CHAIN SOLUTIONS PROVIDER OF THE YEAR

TRANSPORT & LOGISTICS MIDDLE EAST EXCELLENCE AWARDS 2018

COMMENDATIONS FROM CUSTOMERS AND PARTNERS

APPRECIATION OF DEDICATED LOGISTICS SERVICES

GAP



BEST DISTRIBUTION PARTNER

NETGEAR

BEST LOGISTICS BUSINESS PARTNER 2017

TTM TECHNOLOGIES

INNOVATION AWARD

MAXIM'S CATERERS

BEST 3PL SUPPLY CHAIN PROVIDER IN CHINA

ALFRED DUNHILL

2017 BEST LOGISTICS OPTIMISATION PROJECT

AKZONOBEL

Kerry Logistics has a total of 100 wins, from corporate accolades, industry recognition to commendations from customers and partners

LOCATION	AWARD	ORGANISER
CORPORATE ACCOLADES		
Hong Kong	Hong Kong Corporate Governance Excellence Awards 2018: Award for Corporate Governance Excellence	The Chamber of Hong Kong Listed Companies and Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University
	The Asset Corporate Awards 2018 ▪ Platinum Award ▪ Best CEO (Logistics) – William Ma	The Asset Magazine
	Listed Enterprises of the Year 2018	Bloomberg Businessweek
	Quamnet Outstanding Enterprise Awards 2018: Outstanding Global 3PL	Quamnet
	Asia's Most Honored Companies 2018	Institutional Investor
	2018 All-Asia Executive Team annual ranking (Transportation Sector) ▪ Most Honored Company ▪ Best CEO – William Ma ▪ Best CFO – Ellis Cheng ▪ Best IR Professional – Cheryl Yeung ▪ Best Investor Relations ▪ Best Corporate Governance ▪ Best ESG SRI Metrics ▪ Best Analyst Day	Institutional Investor
	IR Magazine Awards – Greater China 2018 ▪ Best in Sector: Industrials ▪ Best Investor Event (Small to Mid-cap) ▪ Certificate for Excellence in Investor Relations	IR Magazine
	Legal Awards 2018: Best Logistics & Supply Chain Solutions Company	APAC Insider Magazine
	4th Investor Relations Awards 2018 (Mid Cap) ▪ Best Investor Meeting ▪ Best IR by CFO – Ellis Cheng	Hong Kong Investor Relations Association
	Caring Company 2018/2019	The Hong Kong Council of Social Service
	The 7th Outstanding Corporate Social Responsibility Award	Mirror Post
Thailand	No 1 Brand in Thailand 2017-2018	Marketeer Magazine
	Thailand Quality Prize 2019	Technology Promotion Association (Thailand-Japan)
Singapore	Singapore SME 1000 Company – Emerging 2018	DP Information Group
US	2017 Vision Awards: Annual Report Competition Bronze Award (Transportation & Logistics)	League of American Communications Professionals
	2018 International ARC Awards Gold Winner: Non-traditional Annual Report – Logistics Enterprises	MerComm, Inc.
	2018 iNOVA Awards ▪ Gold Winner: Video – Corporate Image ▪ Grand Award – Best of Video	MerComm, Inc.

LOCATION	AWARD	ORGANISER
CORPORATE ACCOLADES		
United Kingdom	The International Annual Report Design Awards 2018 Annual Report 2017 (Transportation & Logistics) ▪ Gold Winner: Integrated Presentation ▪ Gold Winner: Interior Design ▪ Silver Winner: Cover Design ▪ Silver Winner: Photography	IADA International Limited
Taiwan	Outstanding Anti-Drugs Company 2018 – Second runner up	Taipei Medical University
INDUSTRY RECOGNITION		
United Kingdom	Global Freight Awards 2018: Sea Freight Award	Lloyd's Loading List
	Lloyd's List Asia Pacific Awards 2018: Logistics Award	Lloyd's List
Singapore	2018 Frost & Sullivan Asia Pacific Best Practices Awards ▪ Asia-Pacific Logistics Service Provider of the Year ▪ Asia-Pacific Road Transportation Service Provider of the Year	Frost & Sullivan
	2018 Asian Freight, Logistics & Supply Chain Awards ▪ Best 3PL ▪ Best Logistics Service Provider – Air Freight	Asia Cargo News Magazine
	Supply Chain Asia Awards 2018 ▪ Overall Supply Chain Partner of the Year ▪ Asian 3PL of the Year ▪ Care & Positive Work Environment of the Year ▪ Honorary Fellow – George Yeo	Supply Chain Asia Magazine
Dubai	Transport & Logistics Middle East Excellence Awards 2018: Supply Chain Solutions Provider of the Year	Transport & Logistics Middle East Magazine
US	Armstrong & Associates' Ranking (published in 2018) ▪ Top 50 Global 3PLs – Ranked No 23 (ranked by 2017 logistics gross revenue/turnover) ▪ Top 25 Global Freight Forwarders – Ranked No 13 (ranked by 2017 logistics gross revenue/turnover & freight forwarding volumes)	Armstrong & Associates, Inc.
	Transport Topics' Top 50 Logistics Ranking (published in 2018) ▪ Top 50 Ocean Freight Forwarders – Ranked No 8 (ranked by 2017 freight forwarding volumes) ▪ Top 50 Air Freight Forwarders – Ranked No 19 (ranked by 2017 freight forwarding volumes)	Transport Topics & Armstrong & Associates, Inc.
Mainland China	2017 Top 100 China IFF & Logistics Enterprises ▪ Ranked No 11 ▪ Ranked No 15 in Air Freight ▪ Top 50 in Sea Freight ▪ Ranked No 6 in Warehousing	China International Freight Forwarders Association and International Business Daily
	2018 National Advanced Logistics Enterprises	China Communication and Transportation Association
	2018 Top 100 China Logistics Enterprises	China Communication and Transportation Association
	2017 National Top 100 General Warehousing Enterprises	China Association of Warehousing and Distribution
	2018 Top 50 China Logistics Enterprises	China Federation of Logistics & Purchasing
	Logistics Enterprise (AAAA Level)	China Federation of Logistics & Purchasing
	2017-2018 Top 100 China Road Transport Service Enterprises in Chemical Industry	Dangerous Chemicals Logistics Branch of China Federation of Logistics & Purchasing
	2017-2018 Top 100 China Dangerous Goods Logistics Enterprises	Dangerous Goods Specialised Committee of China Communication and Transportation Association
	National Advanced Enterprise of Dangerous Goods Logistics Safety Management 2018	Dangerous Goods Specialised Committee of China Communication and Transportation Association

LOCATION	AWARD	ORGANISER
INDUSTRY RECOGNITION		
Mainland China	2017 Shanghai Customs District – Outstanding Customs Broker	Shanghai Customs Brokers Association
	The 5th National Customs Clearance Assessment – National Excellent Customs Clearance Enterprise ▪ Kerry EAS Logistics ▪ Kerry EAS Logistics – Hainan Branch ▪ Kerry EAS Logistics – Qingdao Branch ▪ Kerry EAS Logistics – Wuxi Branch ▪ Kerry EAS Logistics – Shanghai Branch ▪ Tianjin Kerry EAS Customs Brokerage Limited	China Customs Brokers Association
India	The 10th Edition South East CEO Conclave & Awards 2018 ▪ Freight Forwarder of the Year – Multicargo ▪ Customs Broker of the Year (Large Segment) ▪ Hall of Fame Honour	Exim India Shipping Times
	The 9th All India Maritime and Logistics Awards 2018: Customs Broker of the Year (Export)	Exim India Shipping Times
	Aviation Cargo Express – South East Air Cargo Conclave & Awards 2018 ▪ Innovative Logistics Solution Provider of the Year ▪ Airfreight Forwarder of the Year (International) ▪ Customs Broker of the Year (Air Import)	Exim India Shipping Times
	Best Performance Award 2018	Chennai Port Trust
COMMENDATIONS FROM CUSTOMERS AND PARTNERS		
Hong Kong	Appreciation of Dedicated Logistics Services	GAP
	Best Distribution Partner	NETGEAR
	Best Logistics Business Partner 2017	TTM Technologies
	Innovation Award	Maxim's Caterers
	Excellent Partner 2018	BSH Home Appliances
	Best 3PL 2018	China Paint
Mainland China	Best 3PL Supply Chain Provider in China	Alfred Dunhill
	2017 Special Contribution Award	Sony Supply Chain Solution
	Excellence Logistics	BOE Technology
	Best Domestic Carrier	Johnson & Johnson Medical (China)
	2017 Best Logistics Optimisation Project	AkzoNobel
	2017 Customer Award	Etihad Cargo
	Excellent Domestic Agent of the Year	China Eastern Airlines
	2018 Best Partner	China Eastern Airlines
	Best Strategic Partner	HNA Cargo
	Outstanding Contribution Award	China Cargo Airlines
	Appreciation Award	VC Integration Co Ltd
Taiwan	Million Dollar Sales Award 2017	China Airlines
	Appreciation for the Outstanding Performance in 2017	EVA Air
Singapore	Top Agents Award 2017/2018	Singapore Airlines Cargo
	Top Sales Agent 2017	EVA Air
Malaysia	Top Cargo Agents Award 2017	Cathay Pacific and Cathay Dragon
	Mega Tonners Award 2017	MASkargo
India	Certificate of Appreciation	Lufthansa Cargo

CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company has applied the principles and code provisions as set out in the CG Code and its corporate governance practices are based on such principles and code provisions as set out in the CG Code. The Directors consider that for the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code.

The Company recognises the importance of transparency in governance and accountability to Shareholders. The Board believes that Shareholders can maximise their benefits from good corporate governance. Therefore, the Company regularly reviews its corporate governance practices to ensure alignment with generally acceptable practices and standards.

During the year, the Company received the Platinum Award, the highest honour of The Asset Corporate Awards, and Mr MA Wing Kai William, Group Managing Director, was honoured with the Best CEO Award, organised by The Asset, a renowned financial magazine. The Company was recognised for its outstanding performance in corporate governance, environmental responsibility, social responsibility, financial performance and investor relations.

In addition, the Company was honoured with the Hong Kong Corporate Governance Excellence Awards 2018, jointly organised by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of the Hong Kong Baptist University. The awards confer recognition to listed companies for their outstanding commitment to shareholder rights, compliance, integrity, fairness, responsibility, accountability, transparency, board independence and leadership, corporate social responsibility and exhibiting a holistic approach to business ethics.

A THE BOARD

1 RESPONSIBILITIES OF THE BOARD

The Board is responsible for the leadership and control of the Company and is responsible for promoting the success of the Company by directing and supervising its affairs. The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference. All relevant terms of reference (except for the Finance Committee and the Risk Management Committee) are published on the websites of the Stock Exchange and the Company.

All Directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the best interests of the Company and its Shareholders at all times. The biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the Directors. For more details, please refer to the section headed "Directors' Permitted Indemnity Provision" in the Report of Directors on page 92 of this annual report.

2 DELEGATION OF MANAGEMENT FUNCTION

The Board is responsible for making all major decisions of the Company including: the approval and monitoring of all major policies of the Group, overall strategies and budgets, internal control and risk management systems, notifiable and connected transactions, nomination of directors, Company Secretary and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

3 BOARD COMPOSITION

The Board comprises the following Directors:

Executive Directors

Mr YEO George Yong-boon (Chairman)
Mr MA Wing Kai William (Group Managing Director)
Mr KUOK Khoon Hua
Mr ERNI Edwardo (resignation effective from 1 January 2019)
Mr NG Kin Hang (appointment effective from 1 January 2019)

Non-executive Director

Mr CHIN Siu Wa Alfred

Independent Non-executive Directors

Ms KHOO Shulamite N K
Mr WAN Kam To
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok
Mr ZHANG Yi Kevin

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Save as disclosed in the Prospectus and in this annual report, to the best knowledge of the Company, there are no financial, business, family, or other material relationships among members of the Board.

4 APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The procedures and process of appointment, re-election and removal of directors are laid down in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of Independent Non-executive Directors.

Each of the Directors (including the Non-executive Director and Independent Non-executive Directors) has signed an appointment letter with the Company for an initial term commencing from his/her respective date of appointment until the next general meeting of the Company, at which he/she will be eligible for re-election. Upon being re-elected, the appointment of the director shall continue for a period of three years and until the conclusion of the third annual general meeting of the Company or such earlier date pursuant to the Bye-laws. The appointments are subject to the provisions of retirement and rotation of directors in accordance with the Bye-laws.

In accordance with the Bye-laws, all Directors of the Company are subject to retirement by rotation no later than the third annual general meeting after he/she was last elected or re-elected.

5 INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually provided with information related to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities. Continuing briefing and professional development for Directors were arranged by the Company and its legal adviser.

According to records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2018 is as follows:

Name of Director	Training attended/ eligible to attend
Mr YEO George Yong-boon	✓*
Mr MA Wing Kai William	✓*
Mr ERNI Edwardo (resignation effective from 1 January 2019)	✓*
Mr KUOK Khoon Hua	✓*
Mr NG Kin Hang (appointment effective from 1 January 2019)	✓#
Mr CHIN Siu Wa Alfred	✓*
Ms KHOO Shulamite N K	✓*
Mr WAN Kam To	✓*
Ms WONG Yu Pok Marina	✓*
Mr YEO Philip Liat Kok	✓*
Mr ZHANG Yi Kevin	✓*

* *Director has attended training sessions arranged by the Company on "Risk Management – Cybersecurity Awareness"; "Latest Update on CG Code and Related Listing Rules"; "Findings and Recommendations by the Stock Exchange for Annual Reports – Business Review in Management Discussion and Analysis" and "Notifiable and Connected Transactions Rules Relating to Lease Transactions – HKFRS/IFRS 16 'Leases'".*

\# *Director has attended training session arranged by the Company on "Obligations of a Hong Kong Listed Company and its Directors".*

6 BOARD MEETINGS AND GENERAL MEETINGS

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

Code Provision A.1.1 prescribes that at least four regular board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication.

The Board met four times during the year ended 31 December 2018 for discussing and approving the overall strategies and policies of the Company, reviewing and approving the audited annual results for the year ended 31 December 2017, unaudited interim results for the six months ended 30 June 2018, and discussing the reports and suggestions from all Board committees. The attendance records of each director at the Board meetings are set out below:

Name of Director	Meetings attended/ eligible to attend
Mr YEO George Yong-boon	4/4
Mr MA Wing Kai William	4/4
Mr ERNI Edwardo (resignation effective from 1 January 2019)	4/4
Mr KUOK Khoon Hua	4/4
Mr NG Kin Hang (appointment effective from 1 January 2019)	N/A
Mr CHIN Siu Wa Alfred	4/4
Ms KHOO Shulamite N K	3/4
Mr WAN Kam To	4/4
Ms WONG Yu Pok Marina	4/4
Mr YEO Philip Liat Kok	3/4
Mr ZHANG Yi Kevin	4/4

Other than the above full Board meetings, the Chairman (Mr YEO George Yong-boon) also held an annual meeting with the Non-executive Director and Independent Non-executive Directors without the presence of any of the other Executive Directors. The attendance of such Directors at the meeting is as follows:

Name of Director	Meeting attended/ eligible to attend
Mr YEO George Yong-boon	1/1
Mr CHIN Siu Wa Alfred	1/1
Ms KHOO Shulamite N K	1/1
Mr WAN Kam To	1/1
Ms WONG Yu Pok Marina	1/1
Mr YEO Philip Liat Kok	1/1
Mr ZHANG Yi Kevin	1/1

The Company held one annual general meeting on 29 May 2018 during the year ended 31 December 2018. All proposed Shareholders' resolutions put to the above general meeting were resolved by poll vote and were duly passed. The vote tally of each such resolution was set out in the Company's announcement released on the day of the general meeting.

The attendance of the members of the Board and/or each Board committee in the general meeting is as follows:

	Other capacity (during the period of membership)					
	Remuneration Committee	Audit and Compliance Committee	Nomination Committee	Finance Committee	Risk Management Committee	Meeting attended/ eligible to attend
Mr YEO George Yong-boon	✓		✓	✓		1/1
Mr MA Wing Kai William				✓	✓	1/1
Mr ERNI Edwardo (resignation effective from 1 January 2019)				✓	✓	1/1
Mr KUOK Khoon Hua	✓		✓			0/1
Mr NG Kin Hang (appointment effective from 1 January 2019)				✓	✓	N/A
Mr CHIN Siu Wa Alfred		✓				0/1
Ms KHOO Shulamite N K	✓		✓			1/1
Mr WAN Kam To	✓	✓				1/1
Ms WONG Yu Pok Marina		✓	✓			1/1
Mr YEO Philip Liat Kok			✓			0/1
Mr ZHANG Yi Kevin	✓	✓				0/1

PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notices are generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management (including the general manager) attend all regular global executive committee meetings, chaired by the Group Managing Director and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings except for the Remuneration Committee meetings, minutes of which are taken by the secretary of the Remuneration Committee appointed by the chairman of the Remuneration Committee. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Bye-laws contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

7 INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of Independent Non-executive Directors representing at least one-third of the Board and at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

Prior to their respective appointment, each of the Independent Non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the Independent Non-executive Directors in respect of their independence. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence requirements set out in the Listing Rules.

The Independent Non-executive Directors take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgment in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company.

B CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Chairman of the Board is Mr YEO George Yong-boon, who provides leadership for the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for setting the strategic vision, direction and goals of the Group and he participated in the Group's strategic and key operational decision-making processes. He is the primary responsible person for ensuring that good corporate governance practices and procedures are established, and that appropriate steps are taken to provide effective communication with Shareholders and that their views are communicated to the Board as a whole.

The Group Managing Director is Mr MA Wing Kai William, who performs the functions of the chief executive and is responsible for overseeing the operations and investment as well as exploring new business opportunities for the Group.

To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the Chairman of the Board co-ordinates with the senior management to provide adequate, complete and reliable information to all Directors for consideration and review.

C BOARD COMMITTEES

The Board has established five committees, namely, the Remuneration Committee, Audit and Compliance Committee, Nomination Committee, Finance Committee and Risk Management Committee, for overseeing particular aspects of the Company's affairs. All of these five committees of the Company are established with defined written terms of reference.

The majority of the members of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee are Independent Non-executive Directors. The members of the Finance Committee are Executive Directors, while members of the Risk Management Committee are Executive Directors and members of the senior management.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

1 REMUNERATION COMMITTEE

The Board has established a remuneration committee with written terms of reference in compliance with paragraph B.1 of the CG Code. The Remuneration Committee consists of three Independent Non-executive Directors, being Ms KHOO Shulamite N K, Mr WAN Kam To and Mr ZHANG Yi Kevin, and two Executive Directors, being Mr YEO George Yong-boon and Mr KUOK Khoon Hua. Mr WAN Kam To has stepped down as chairman of the Remuneration Committee on 1 March 2018 but remained as a member, and Ms KHOO Shulamite N K, a member of the Remuneration Committee, has been appointed as chairman of the Remuneration Committee on 1 March 2018 in place of Mr Wan.

The primary duties of the Remuneration Committee include, but are not limited to: (i) making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives and ensuring that it is consistent with contractual terms and are reasonable and appropriate; and (iii) determining the terms of the remuneration package of the Directors and senior management with reference to their time commitment and responsibilities, and employment condition in the Group, and comparable companies.

The Remuneration Committee held five meetings during the year ended 31 December 2018 to consider the reports and recommendations on the remuneration policy of the Company from external human resources consultant, to review the remuneration policy and structure of the Company, to make recommendations to the Board on determining the annual remuneration packages of the Executive Directors and the senior management and other related matters and to make recommendations to the Board on determining the revised annual fees of the Non-executive Directors (including Independent Non-executive Directors).

The attendance records of the Remuneration Committee are set out below:

Name of Director	Board Capacity (during the period of membership)	Meetings attended/ eligible to attend
Mr YEO George Yong-boon	Chairman	5/5
Mr KUOK Khoon Hua	ED	5/5
Ms KHOO Shulamite N K (Chairman)	INED	5/5
Mr WAN Kam To	INED	4/5
Mr ZHANG Yi Kevin	INED	5/5

The Remuneration Committee has the delegated responsibility to determine the remuneration packages of the individual Executive Directors and the senior management.

The remuneration for the Executive Directors and senior management comprises salary and discretionary bonus.

Salaries are reviewed annually. Salary increases of Executive Directors and senior management are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/ sector trends.

In addition to salary, Executive Directors and senior management are eligible to receive a discretionary bonus, the amount of which shall be reviewed and approved by the Remuneration Committee who shall take into consideration factors such as market conditions as well as corporate and individual performances.

In order to attract, retain and motivate executives and key employees serving any member of the Group, Directors and senior management are also eligible to participate in the Company's Post-IPO Share Option Scheme.

For the year ended 31 December 2018, the Non-executive Directors (including Independent Non-executive Directors) and the members of the Board committees (other than Executive Director(s)), were entitled to the following annual fees:

Annual fee	Amount (HK$)	Basis of pro-rating for the year
As NED/INED	300,000	Period of directorship
	5,000	Attendance rate at Board meetings
As Remuneration Committee member/chairman	50,000*/80,000	Period of membership
	5,000	Attendance rate at meetings
As Audit and Compliance Committee member/chairman	120,000*/200,000*	Period of membership
	5,000	Attendance rate at meetings
As Nomination Committee member	50,000*	Period of membership
	5,000	Attendance rate at meetings
As Finance Committee member#	N/A	Period of membership
	N/A	Attendance rate at meetings
As Risk Management Committee member#	N/A	Period of membership
	N/A	Attendance rate at meetings

* *The Board has approved the revised annual fees with effect from 1 July 2018.*

All members of the Finance Committee are Executive Directors, and all members of the Risk Management Committee are either Executive Directors or members of the senior management of the Company. Annual fee or attendance fee for being a committee member is therefore not applicable.

Details of the remuneration paid to each of the Directors for the year ended 31 December 2018 are set out in note 12 to the Financial Statements.

The remuneration paid to each of the senior management members of the Group (as named in the section of "Senior Management") by band for the year ended 31 December 2018 is set out in note 12 to the Financial Statements.

2 AUDIT AND COMPLIANCE COMMITTEE

The Board has established an audit and compliance committee in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 as well as paragraph D.3 of the CG Code.

The written terms of reference of the Audit and Compliance Committee were revised on 11 December 2018 to reflect the amendments to the CG Code which came into effect on 1 January 2019, specifically state that a former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit and Compliance Committee for a period of two years from the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the later. The revised terms of reference were set out in the Company's announcement released on 11 December 2018 and were made available on the websites of the Stock Exchange and the Company.

The Audit and Compliance Committee consists of three Independent Non-executive Directors, being Mr WAN Kam To, Ms WONG Yu Pok Marina and Mr ZHANG Yi Kevin and one Non-executive Director, being Mr CHIN Siu Wa Alfred. The chairman of the Audit and Compliance Committee is Ms WONG Yu Pok Marina, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the Audit and Compliance Committee include, but are not limited to: (i) reviewing and monitoring the relationship of the external auditor and the Group, particularly the independence and objectivity and effectiveness of the external auditor; (ii) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of the Group; (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board; (iv) developing, reviewing and monitoring the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the Listing Rules; (v) reviewing the financial information of the Company and ensuring compliance with accounting standards and reviewing significant adjustments resulting from audit; and (vi) developing, reviewing and monitoring the code of conduct applicable to the Company's employees and Directors.

As at the date of this annual report, the Audit and Compliance Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit and Compliance Committee considers that the financial results for the year ended 31 December 2018 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit and Compliance Committee held four meetings during the year ended 31 December 2018 to review the audited annual results and financial report for the year ended 31 December 2017, the financial reporting and the compliance procedures, the corporate governance policy and practice, the internal audit plan and reports, the unaudited interim results and financial report for the six months ended 30 June 2018, the non-exempt continuing connected transaction for the year ended 31 December 2018, the training for and the continuing professional developments of the Directors and senior management, the policies and practices regarding compliance with laws and regulations, the financial, operational and compliance monitoring, the risk management control, the work of the internal and external auditor, as well as the service fees due to the external auditor.

The attendance records of the Audit and Compliance Committee are set out below:

Name of Director	Board Capacity (during the period of membership)	Meetings attended/ eligible to attend
Mr CHIN Siu Wa Alfred	NED	4/4
Mr WAN Kam To	INED	4/4
Ms WONG Yu Pok Marina (Chairman)	INED	4/4
Mr ZHANG Yi Kevin	INED	3/4

The Company's results for the year ended 31 December 2018 have been reviewed by the Audit and Compliance Committee on 19 March 2019.

The Audit and Compliance Committee reported that it had duly performed its duties relating to the corporate governance functions and it was not aware of any terms of corporate governance being violated during the year ended 31 December 2018.

3 NOMINATION COMMITTEE

The Board has established a nomination committee with written terms of reference in compliance with paragraph A.5 of the CG Code. The Nomination Committee consists of two Executive Directors, being Mr YEO George Yong-boon and Mr KUOK Khoon Hua, and three Independent Non-executive Directors, being Ms KHOO Shulamite N K, Ms WONG Yu Pok Marina and Mr YEO Philip Liat Kok. The chairman of the Nomination Committee is Mr YEO George Yong-boon.

The primary duties of the nomination committee include, but are not limited to (i) identifying, selecting and recommending to the Board appropriate candidates to serve as Directors and general manager of the Company, and identify candidates for succession planning; (ii) overseeing the process for evaluating the performance of the Board; (iii) developing, recommending to the Board and monitoring nomination guidelines for the Company; and (iv) assessing the independence of Independent Non-executive Directors.

The Nomination Committee held one meeting during the year ended 31 December 2018 to review the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company, to recommend the appointment of the additional Executive Director, to assess the independence of the Independent Non-executive Directors and to recommend a nomination policy for the Board's consideration and approval. The nomination policy of the Company was duly approved by the Board on 21 December 2018.

The attendance records of the Nomination Committee are set out below:

Name of Director	Board Capacity (during the period of membership)	Meeting attended/ eligible to attend
Mr YEO George Yong-boon (Chairman)	Chairman	1/1
Mr KUOK Khoon Hua	ED	1/1
Ms KHOO Shulamite N K	INED	1/1
Ms WONG Yu Pok Marina	INED	1/1
Mr YEO Philip Liat Kok	INED	1/1

Prior to the listing of the Company on 19 December 2013 and up to the year ended 31 December 2018, the composition and diversity of the Board were considered by taking into account the Board Diversity Policy including the necessary balance of skills and experience appropriate for the requirements of the business development of the Company and for effective leadership. All the Executive Directors possess extensive and diversified experience in management and broad industrial experience such as the logistics industry, government authorities and other companies. The Non-executive Director and the five Independent Non-executive Directors possess professional knowledge in management, finance, accountancy, human resources and science and technology, respectively with broad and extensive experience in business advisory and management, respectively.

Where vacancies on the Board arise, the Nomination Committee will carry out the selection process in accordance with the Board Diversity Policy of the Company and by making reference to a range of diversity perspectives, including but not limited to the skills, professional experience, knowledge and length of service of the proposed candidates, cultural and educational background, the Company's needs and other relevant statutory requirements and regulations.

4 FINANCE COMMITTEE

The Board has established a finance committee in compliance with paragraphs D.2 and D.3 of the CG Code with written terms of reference since March 2014. The Finance Committee consists of three Executive Directors, being Mr YEO George Yong-boon, Mr MA Wing Kai William and Mr NG Kin Hang. The chairman of the Finance Committee is Mr YEO George Yong-boon. Mr ERNI Edwardo has stepped down as a member of the Finance Committee and Mr NG Kin Hang has been appointed as a member of the Finance Committee on 1 January 2019.

The primary duties of the Finance Committee include, but are not limited to: (i) review and approve all significant acquisitions, investments, disposal of assets, contracts and variations, and new project commitments; (ii) review and approve all major treasury policies and products on financing, derivatives and financial risk management; and (iii) review and approve the banking facilities and the granting of guarantees and indemnities; whereby the financial impact of each of the incidents/activities stated above falls under certain threshold as specified in the terms of reference.

The Finance Committee passed resolutions in writing in lieu of meeting by all committee members during the year ended 31 December 2018 to review and approve tenancy, deeds of gift, allotment of shares and lapse of options pursuant to the Pre-IPO Share Option Scheme and/or Post-IPO Share Option Scheme, corporate guarantees, opening of bank accounts, amended corporate card service agreement and terms of reference annually.

5 RISK MANAGEMENT COMMITTEE

The Board has established a risk management committee with written terms of reference in compliance with paragraph C.2 of the CG Code in November 2015. The Risk Management Committee consists of two Executive Directors, being Mr MA Wing Kai William and Mr NG Kin Hang and two members of the senior management. The chairman of the Risk Management Committee is Mr MA Wing Kai William. Mr ERNI Edwardo has stepped down as a member of the Risk Management Committee and Mr NG Kin Hang has been appointed as a member of the Risk Management Committee on 1 January 2019.

The primary duties of the Risk Management Committee include, but not limited to: (i) evaluate the Company's risk management system; (ii) review and advise the Board on the implementation and effectiveness of the Company's risk management system and policies; (iii) discuss the risk management system with the management to ensure that the management has performed its duties in establishing and maintaining an effective risk management system, including adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's risk management function; (iv) consider major findings and investigation on risk management matters as delegated by the Board; and (v) conduct an annual review of the Company's risk management system.

The Risk Management Committee oversees and monitors the risk management system of the Company on an ongoing basis and reviews with our management continuously throughout the year the scope, adequacy and effectiveness of the Company's corporate accounting and financial controls, risk management systems, and any related significant findings regarding risks or exposures and considers recommendations for improvement of such controls. The review covers all material controls, including financial, operational and compliance controls. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. For details of the review, please refer to the section headed "G. Risk Management and Internal Controls" on page 53 of this annual report.

In conducting annual review, the Risk Management Committee considers in particular factors including (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of our internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period; and (e) other factors which affect the effectiveness of the Company's risk management system.

The Risk Management Committee held two meetings during the year ended 31 December 2018 to review cyber security and consider risks and opportunities from US-China trade war.

The attendance records of the Risk Management Committee are set out below:

Name of Director	Board Capacity (during the period of membership)	Meetings attended/ eligible to attend
Mr MA Wing Kai William (Chairman)	Group Managing Director	2/2
Mr ERNI Edwardo (resignation effective from 1 January 2019)	ED	2/2
Mr NG Kin Hang (appointment effective from 1 January 2019)	ED	N/A
Two members of the senior management	N/A	2/2

D MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors (including Mr NG Kin Hang, the newly appointed Executive Director) and the Directors have confirmed that they have complied with the Model Code (i) during the year ended 31 December 2018; or (ii) from their respective appointment dates, as the case may be.

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

E DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Financial Statements and for ensuring the Financial Statements are published in a timely manner.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company put to the Board for approval.

F EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities for the Financial Statements is set out under the section headed "Independent Auditor's Report" in this annual report.

The external auditor of the Company will be invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report and auditor's independence.

During the year ended 31 December 2018, the remuneration paid to the external auditor (including its other member firms) of the Company in respect of audit services and non-audit services (primarily, due diligence work, ESG advisory services and taxation services) amounted to HK$16,510,000 and HK$3,175,000 respectively.

The Auditor, PricewaterhouseCoopers, Hong Kong, will retire and offer itself for re-appointment at the forthcoming AGM.

G RISK MANAGEMENT AND INTERNAL CONTROLS

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board considers the risk management and internal control systems of the Group are effective and adequate.

The Board is responsible for maintaining an adequate risk management and internal control system to safeguard Shareholders' investments and Company's assets, and reviewing the effectiveness of such on an annual basis through the Audit and Compliance Committee and Risk Management Committee. The risk profile of the Company is collectively discussed and defined by the senior management of the Company. The risk profile identifies major risks and defines acceptable levels for each risk type. Risks that exceed the approved risk appetite shall be adjusted by transferring, sharing or eliminating them, or by implementing other risk mitigation measures, with the aim of reducing the quantum and frequency of loss.

During the year ended 31 December 2018, the Board has conducted a review on the effectiveness of the risk management and internal control systems of the Group and is of the view that such systems are effective. The review has covered the financial, operational and compliance aspects of the Group.

The Risk Management Committee is of the view that risk management and internal control shall be in line with the Company's operation scale, business scope, competition and risk level, and shall be adjusted in a timely manner according to the changes in circumstances.

A summary of major work conducted by the Company during the reporting period in relation to risk management and internal control is as follows:

- Management is responsible for setting the appropriate tone from the top. The members of Risk Management Committee met with senior management and regional heads from time to time to identify major risks and uncertainties pertaining to the Group's business through the process of risk identification and assessment. Once major risks were identified, the Risk Management Committee endeavoured to evaluate and compare the level of risks identified against predetermined acceptable levels of risk;

- The Company also adopts a bottom-up approach which involves the identification of risks in major operating activities by regional heads. For risk management and monitoring, regional heads communicated with the heads of business units, departments and divisions from time to time to monitor risks identified and come up with measures and response plans to manage and mitigate risks identified in day-to-day business operations. The Risk Management Committee also followed-up periodically the implementation of such measures and response plans;

- The management evaluated the design and operating effectiveness of the internal control regarding financial reporting for 2018 and did not discover any material weaknesses as a result of the evaluation;

- The management reviewed the systems, policies and procedures on disclosure of inside information including annual review of the policy on inside information disclosure. Further, with a view to identifying, handling and disseminating inside information in compliance with the SFO, procedures including pre-clearance on dealing in Company's securities by Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to relevant Directors and employees, identification of project by code name and dissemination of information to stated purpose and on a need-to-know basis have been implemented by the Company to guard against possible mishandling of inside information within the Group;

- A whistleblowing policy and system had been established for employees and those who deal with the Company to raise concerns, in confidence, about possible improprieties in any matter relating to the Company and the Audit and Compliance Committee has reviewed such policy and system and ensured that proper arrangement are in place for fair and independent investigation of the matters;

- The Company maintained a mechanism for rectifying internal control defects under which the relevant department heads have clear responsibilities of rectifying internal control defects in their respective departments ranging from legal, regulatory to operation;

- During the reporting period, the Company's internal audit department provided independent assurance as to the adequacy and effectiveness of the Company's risk management and internal control systems. The financial condition, operational control and compliance control of the Company were examined by the internal audit department according to the audit plan approved by the Audit and Compliance Committee and the Board. Different audit areas were assigned according to risk priority. The internal audit department assisted the Board to monitor the effectiveness of the risk management and internal control systems. After completion of an internal audit, analysis, appraisals, recommendations related to the activities inspected were formulated. The internal audit department reported to the Audit and Compliance Committee and the Board about internal audit findings, internal audit recommendation and the management responses. In addition, the internal audit function maintained a regular dialogue with the Company's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

H COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions.

The general meetings of the Company are expected to provide a forum for communication between the Board and the Shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee, Audit and Compliance Committee, Nomination Committee and Risk Management Committee and, in their absence, other members of the respective committees are available to answer questions at Shareholders' meetings.

To promote effective communication, the Company maintains a website at www.kerrylogistics.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Company has established the Shareholders Communication Policy since the listing of the Company on 19 December 2013 and continually reviews it on a regular basis to ensure its effectiveness.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual directors.

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar and transfer office in Hong Kong, namely, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Shareholders who wish to put enquiries to the Board can send their enquiries to the Company Secretary who will ensure these enquiries to be properly directed to the Board. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

Shareholders holding not less than one-tenth of the paid-up capital of the Company may deposit a requisition to convene a special general meeting and state the purpose therefor at the Company's registered office in Bermuda at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Shareholders who wish to put forward proposals for the Company's consideration at the general meetings can send their proposals to the Company Secretary.

All resolutions put forward at a general meeting will be taken by poll pursuant to the Listing Rules. Shareholders who are unable to attend the general meeting can appoint proxies to attend and vote at the general meeting. The Chairman of the general meeting will provide explanation of the detailed procedures for conducting a poll and then answer questions (if any) from the Shareholders regarding voting by way of poll. In addition, the poll results will be posted on the websites of the Company and of the Stock Exchange after the Shareholders' meeting.

J DIVIDEND POLICY

Pursuant to the dividend policy duly approved by the Board on 11 December 2018, subject to the Bye-laws, the Companies Act 1981 of Bermuda and other applicable laws and regulations, the Company currently targets to distribute to its Shareholders approximately 30% of its core net profit for each financial year end. Any proposed distribution of dividends is subject to the discretion of the Board and the approval of the Shareholders. Special dividend will also be considered when circumstances permit. Recommendations for distribution of dividends will be made after taking into account the results of operations, financial condition, operating requirements, capital requirements, Shareholders' interests and any other conditions that the Board may deem relevant.

K COMPANY SECRETARY

Ms LEE Pui Nee, the Company Secretary, is a full-time employee of the Company and has day-to-day knowledge of the Company's affairs. She reports to the Chairman, Group Managing Director and Chief Financial Officer. All Directors have access to the advice and services of the Company Secretary to ensure the Board procedures, and all applicable law, rules and regulations, are followed.

During the year ended 31 December 2018, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

L CONSTITUTIONAL DOCUMENTS

There are no changes in the Memorandum of Continuance and Bye-laws of the Company during the year ended 31 December 2018.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

YEO George Yong-boon

Aged 64, has been the Chairman of the Company since August 2012 and became an Executive Director of the Company in November 2013. Mr Yeo has been a director of KHL since July 2016.

From 1988 to 2011, Mr Yeo served for 23 years in the Singapore Government, as Minister of State for Finance, then as Minister for Information and the Arts, Health, Trade and Industry, and Foreign Affairs. Prior to 1988, Mr Yeo served in various capacities in the Singapore Army, Republic of Singapore Air Force and Defence Ministry, including Chief-of-Staff of the Air Staff and Director of Joint Operations and Planning in the Defence Ministry, attaining the rank of Brigadier-General.

Mr Yeo was a member of the Mentor Group and Governing Board of Nalanda University and became its Second Chancellor until November 2016. Mr Yeo is a member of the Berggruen Institute on Governance, the Harvard Business School Board of Dean's Advisors, the International Advisory Board of IESE Business School, the International Advisory Panel of Peking University, the International Advisory Council of Eco Forum Global Guiyang, the Economic Development Commission of Hong Kong, the International Advisory Committee of National Graduate Institute for Policy Studies and the International Advisory Committee of Mitsubishi Corporation (a company listed on the Tokyo Stock Exchange with stock code 80580). Mr Yeo was a member of the Vatican Council Commission for Reference on the Organization of the Economic-Administrative Structure of the Holy See and became a member of the Vatican Council for the Economy from February 2014.

Mr Yeo has been an independent non-executive director of AIA Group Limited (a company listed on the Stock Exchange with stock code 1299) since November 2012. He has been an independent director of New Yangon Development Company Limited, owned by the Yangon Region Government, since December 2017 and Pinduoduo Inc. (a company listed on NASDAQ with stock code PDD) since July 2018. Mr Yeo is a strategic non-business advisor of Sea Limited (a company listed on the New York Stock Exchange with stock code SE) and a senior advisor of Brunswick Group for its geopolitical initiative. He had served as a non-independent non-executive director of Wilmar International Limited (a company listed on the Singapore Stock Exchange with stock code F34) from November 2014 to December 2017.

Mr Yeo was awarded Philippines' Order of Sikatuna, India's Padma Bhushan and Australia's Honorary Officer of the Order of Australia.

Mr Yeo graduated from Cambridge University with a double first in engineering in 1976 and also obtained a master of business administration degree (Baker Scholar) from Harvard Business School in 1985. Mr Yeo is a visiting scholar at Lee Kuan Yew School of Public Policy of National University of Singapore.

MA Wing Kai William

Aged 57, is the Group Managing Director of the Company.

Mr Ma joined the group of KHL in September 1990 and served as an executive director of KPL from March 2004 to November 2013.

In June 1999, Mr Ma became director and general manager of Kerry Godown Holdings (BVI) Limited ("Kerry Godown"). He then transformed Kerry Godown into Kerry Warehouse Holdings Limited and successfully spearheaded the formation of the Company in 2000. During the entire restructure and transformation of the Company, he established full-fledged logistics services locally, regionally and globally. Business territories spread from Hong Kong to Mainland China, from Asia Pacific to Europe, the Americas, and Africa. He was designated as Deputy Chairman & Managing Director of the Company in April 2004 and since spinning off of the Company from KPL in December 2013, he has been Group Managing Director as of to date. Mr Ma has also been a director of Kerry TJ since November 2008.

Mr Ma had served as Director and/or an Advisory Board Member in various HKSAR government committees, quasi-government bodies, non-government organisations and education institutions over the years.

In November 2017, Mr Ma was selected as an awardee for Directors of Year Awards 2017 in the Executive Directors category of Listed Companies (SEHK – Hang Seng Indexes Constituents) organised by The Hong Kong Institute of Directors.

Mr Ma obtained his bachelor of science (management sciences) honours degree from the University of Lancaster, the United Kingdom in 1985, and completed an executive supply chain program at Harvard Business School in 2000.

KUOK Khoon Hua

Aged 40, has been an Executive Director of the Company since November 2013. Mr Kuok is the Chairman of KHL, and a director of KGL and Kuok (Singapore) Limited. Both KGL and KHL are the Controlling Shareholders of the Company.

Mr Kuok has been a non-executive director of KPL since June 2015, a non-independent non-executive director of Wilmar International Limited (a company listed on the Singapore Stock Exchange with stock code F34) since July 2016 and an independent director of Sea Limited (a company listed on the New York Stock Exchange with stock code SE) since October 2017.

Mr Kuok obtained a Bachelor's degree in Economics from Harvard University in 2003.

NG Kin Hang

Aged 39, has been an Executive Director of the Company since January 2019. Mr Ng joined the Group in August 2001. He is currently the Executive Director – Integrated Logistics. Mr Ng is also a director and oversees the operations of various subsidiaries and associated companies of the Company, including Kerry Express Thailand.

Mr Ng started with the first batch of management trainees of the Company in 2001, and during the tenure, he had held different corporate and field-based positions in various business segments across Greater China and Southeast Asia. In 2008, Mr Ng relocated to Thailand and started KART (Kerry Asia Road Transport), the Company's Association of Southeast Asian Nations cross-border transportation unit. In 2013, Mr Ng led the Group's express delivery business in Thailand, whereby Kerry Express Thailand achieved unprecedented growth. Today, Kerry Express Thailand is the market leader and a household brand in Thailand.

Mr Ng obtained a bachelor's degree in economics and finance from The University of Hong Kong in 2001.

NON-EXECUTIVE DIRECTOR

CHIN Siu Wa Alfred

(Formerly known as QIAN Shaohua), aged 62, has been the Non-executive Director of the Company since November 2013.

Mr Chin has served as a director of Kerry Holdings (China) Co., Ltd (a subsidiary of KHL) since January 2019. He has also served as an independent non-executive director of Zhongsheng Group Holdings Limited (a company listed on the Stock Exchange with stock code 881) since August 2018. He had served as group vice president at Shangri-La Asia Limited ("SA") (a company listed on the Stock Exchange with stock code 69) from February 2017 to December 2018 and vice president of development at SA from February 2004 to September 2007 respectively. Mr Chin had served as a director of KPL from September 2007 to January 2017 and had been re-designated as an executive director of KPL from July 2009 to January 2017. He had also served as a co-managing director of KPL from August 2013 to September 2015. Mr Chin served as general manager of Zhongshan City Tourism Group Company, an enterprise primarily engaged in the business of tourism development, from January 1996 to May 2002, where he was responsible for the day-to-day general management, asset management, and business development primarily for the China market.

Mr Chin graduated from South China Normal University in 1986 and completed an advanced management programme at Harvard Business School in 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

KHOO Shulamite N K

Aged 57, has been the Independent Non-executive Director of the Company since July 2017.

Ms Khoo was Group Chief Human Resource Officer of AIA Group Limited ("AIA Group") (a company listed on the Stock Exchange with stock code 1299) and a member of AIA Group's Executive Committee. She was responsible for spearheading AIA Group's overall human capital strategies and implementation across a diversity of markets, geographies and culture. Prior to joining AIA Group in 2011, Ms Khoo was the Group Executive Vice President and Global Head of Human Resources of AXA Group SA (a company listed on Euronext Paris with stock code CS and OTCQX International Premier with stock code AXAHY), based in Paris, with global responsibility for the group's leadership and people development strategy. She joined AXA Group in 2005 as Regional Head, Human Resources & Internal Communications for AXA Asia, based in Hong Kong. Ms Khoo spent the early part of her career with Prudential plc (a company listed on the London Stock Exchange with stock code PRU, the New York Stock Exchange with stock code PUK and the Stock Exchange with stock code 2378) and worked in different frontline businesses, client services and operational roles in Singapore and Hong Kong. Between 1984 and 2004, she has served in different roles as Regional Head of Human Resource of Asia of Prudential Corporation Asia, as well as Head of Human Resource, Head of Insurance Operations and Head of Underwriting and Claims of Prudential Singapore.

Ms Khoo was a member of the International Advisory Panel of the Singapore Public Service Division from 2011 to 2017. She has been a Chartered Fellow of the Chartered Institute of Personnel and Development since 2013.

Ms Khoo gained her Bachelor of Science degree from University of Toronto, Canada in 1983.

WAN Kam To

Aged 66, has been the Independent Non-executive Director of the Company since November 2013.

He was a partner of PricewaterhouseCoopers Hong Kong & China with extensive experience in auditing and financial management.

Mr Wan serves as an independent non-executive director of several companies listed on the Stock Exchange, including A-Living Services Co., Ltd. (stock code: 3319) since August 2017, China Resources Land Limited (stock code: 1109) since March 2009, Fairwood Holdings Limited (stock code: 52) since September 2009, Haitong International Securities Group Limited (stock code: 665) since June 2018, Harbin Bank Co., Ltd. (stock code: 6138) since October 2013, Huaneng Renewables Corporation Limited (stock code: 958) since August 2010, KFM Kingdom Holdings Limited (stock code: 3816) since September 2012, Shanghai Pharmaceuticals Holding Co., Ltd. ("SPH") (stock code: 2607) since June 2013 and Target Insurance (Holdings) Limited (stock code: 6161) since November 2014. SPH is also listed on the Shanghai Stock Exchange with stock code 601607. He has also served as an independent director of China World Trade Center Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600007) since November 2016.

Mr Wan had served as an independent non-executive director of Dalian Port (PDA) Company Limited (a company listed on the Stock Exchange with stock code 2880 and the Shanghai Stock Exchange with stock code 601880) from June 2011 to June 2017 and S. Culture International Holdings Limited (a company listed on the Stock Exchange with stock code 1255) from May 2013 to July 2017.

Mr Wan is a Fellow Member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He graduated from the accounting department of Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma in 1975.

WONG Yu Pok Marina JP

Aged 70, has been the Independent Non-executive Director of the Company since November 2013.

Ms Wong has served as an independent non-executive director of KPL since May 2008. She is also the chairman of the audit and corporate governance committee and the remuneration committee and a member of the nomination committee of KPL.

Ms Wong had worked with PricewaterhouseCoopers ("PwC") for over 30 years, specialising in PRC tax and business advisory services, and has extensive experience in advising both Hong Kong and foreign investors on the structuring of their businesses and investments in China. Ms Wong retired as a partner from PwC in July 2004, and joined Tricor Services Limited as a director from September 2004 to February 2006.

Ms Wong serves as an independent non-executive director of Hong Kong Ferry (Holdings) Company Limited (a company listed on the Stock Exchange with stock code 50) since May 2008 and Luk Fook Holdings (International) Limited (a company listed on the Stock Exchange with stock code 590) since August 2013. She had served as an independent director of China World Trade Center Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600007) from November 2010 to November 2016.

Ms Wong is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Ms Wong obtained a higher diploma in Accountancy from Hong Kong Technical College (now known as Hong Kong Polytechnic University) in 1968 after completing a three-year full-time course in accountancy from 1965 to 1968.

YEO Philip Liat Kok

(Also known as Noel Philip YEO), aged 72, has been the Independent Non-executive Director of the Company since November 2013.

Mr Yeo is an independent non-executive director of City Developments Limited (a company listed on the Singapore Stock Exchange with stock code C09) since May 2009. He is the chairman of Economic Development Innovations Singapore Pte Ltd, Hexagon Development Advisors Pte Ltd and Accuron Technologies Pte Ltd. He is currently an independent director of the supervisory board of Baiterek National Managing Holding in Kazakhstan.

He was an independent director of Hitachi Ltd (a company listed on the Tokyo Stock Exchange with stock code 6501) from June 2012 to June 2018. He was the chairman and independent director of Ascendas India Trust (a trust listed on the Singapore Stock Exchange with stock code CY6U) from June 2007 to July 2016.

He was chairman of SPRING Singapore, a Singapore Government agency for enterprise development, from April 2007 until March 2018. From 1986 to 2013, Mr Yeo has been a member of the United Nations Committee of Experts on Public Administration and the World Health Organization Expert Working Group on Research & Development Financing, Special Adviser for Economic Development in the Prime Minister's office of the Singapore Government, Senior Adviser for Science and Technology in the Ministry of Trade and Industry of the Singapore Government, Chairman of the Agency for Science, Technology and Research, in Singapore, Chairman and Co-Chairman for the Economic Development Board.

Mr Yeo obtained a bachelor's degree in applied science in industrial engineering in 1970 and an honorary doctorate degree in engineering from the University of Toronto, Canada in 1997. He obtained a master of science degree in systems engineering from the then University of Singapore (now known as the National University of Singapore ("NUS")) in 1974 and a master of business administration degree from Harvard University in 1976. He received a doctor of medicine degree from Karolinska Institutet, Sweden in 2006, an honorary doctor of science degree from Imperial College London, United Kingdom in 2007, an honorary doctor of letters degree from NUS in 2011, an honorary doctor of law degree from Monash University of Australia in 2011 and an honorary fellowship of King's College London, United Kingdom in 2017.

ZHANG Yi Kevin

Aged 48, has been the Independent Non-executive Director of the Company since July 2017.

Mr Zhang is the founder and Chief Investment Officer of Hereditas Capital Management (Asia) Limited. Prior to that, Mr Zhang was a co-founder and Managing Partner of Ascendent Capital Partners from 2011 to 2018, a Managing Partner of Trustbridge Partners from 2009 to 2011, and was with Goldman Sachs Asia LLC ("Goldman Sachs") from 1994 to 2009. During his time at Goldman Sachs, Mr Zhang acted in various roles as Managing Director and Head of Asian Fixed Income Sales in the Securities Division, Partner and Head of China Financing Group in the Investment Banking Division, and Partner and Co-Head of the Asian Special Situations Group in the Securities Division. Mr Zhang also served on Goldman Sachs' Asian Management Committee, Firm Business Practices Committee and China Operating Committee.

Mr Zhang currently co-chairs the Yale School of Management Greater China Board of Advisors. He is also a member of the Yale Center Beijing Advisory Committee, a governor of The Independent Schools Foundation in Hong Kong, and a board director of The Silver Lining Foundation in China.

Mr Zhang earned his Master of Business Administration from Yale School of Management in 1994.

SENIOR MANAGEMENT

BENJAATHONSIRIKUL Kledchai

Aged 63, joined the Group in July 2000 and is currently the Managing Director – Greater Mekong Region in charge of logistics operations of the Group in Thailand, Cambodia, Myanmar and Laos. He is also a director of Kerry Logistics (Thailand) Limited, a subsidiary of the Company, and other subsidiaries in Thailand.

Mr Benjaathonsirikul is also an independent director and an audit committee member of Shangri-La Hotel Public Company Limited in Thailand (a company listed on The Stock Exchange of Thailand). He has over 25 years of experience in port logistics and transport-related businesses. Mr Benjaathonsirikul manages a fully integrated logistics operation in Thailand ranging from freight forwarding to distribution and transport and port logistics.

He obtained a bachelor of laws degree from the University of Birmingham, United Kingdom in 1978.

CHENG Chi Wai Ellis

Aged 54, joined the Group in August 2009 as Chief Financial Officer.

Mr Cheng is a Fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, as well as a chartered accountant and a chartered secretary.

Mr Cheng has 30 years of experience in auditing, financial control and corporate finance and previously worked in an international accounting firm and held key finance positions in companies whose shares are listed on the Main Board of the Stock Exchange.

He is an adviser of the Advisory Board to Hong Kong Auxiliary Medical Service Officers' Club and a member of the Audit Committee of the Hong Kong Committee for UNICEF.

Mr Cheng has a bachelor of arts degree in accountancy from The Hong Kong Polytechnic University and an executive master's degree in business administration from The Chinese University of Hong Kong.

ERNI Edwardo

Aged 57, served as an Executive Director of the Company with executive responsibility over China between November 2013 and December 2018. Since 2019, Mr Erni has devoted himself exclusively to overseeing the Company's operations in China and North Asia and developing the global project logistics platform. In 2015, he took on the additional duties of developing Russia, CIS countries, Japan, and South Korea, becoming Managing Director – China & North Asia. Mr Erni first became a Director of the Company in 2011. He was also a director of Kerry TJ from June 2010 to June 2016.

As part of his duties, Mr Erni manages a wide portfolio of warehousing companies and logistics platforms in China. He joined the Company in January 1994 and has accrued over 20 years of experience in China's fast growing logistics industry. To entrench his involvement in the industry, Mr Erni serves as vice-chairman of several industry associations, including: the China Federation of Logistics & Purchasing, the Integrated Transport Federation of China Communications and Transportation Association, China Association of Warehouses and Storage, and Beijing Logistics and Supply Chain Management Association (formerly Beijing Logistics Association). As the Managing Director of a well-known enterprise in China, Mr Erni has taken on the role of vice-chairman of Beijing Headquarters Enterprise Association since June 2018.

To continually advance his professional development, Mr Erni completed several advanced management and professional study programmes focusing on strategy and leadership, including: a joint Tsinghua and University of North Carolina E-commerce & Informatization on the Logistic Industry Programme in 2015; a Harvard Business School programme in association with the School of Management at Fudan University in 2013; and management courses held by Tianjin University in 2011, Peking University in 2009, and Tsinghua University in 2008. Mr Erni obtained a Master of Business degree in Logistics Management from the Royal Melbourne Institute of Technology, Australia in 2005.

HUNG Wai Shing Jeffrey

Aged 53, joined the Group in September 1999, and is currently the Regional Financial Director of the Company. Mr Hung joined the warehouse division of the group of KHL in May 1991. He was transferred to the Hong Kong properties division of the group of KHL in August 1993 before joining the Company.

Mr Hung is a Fellow of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor of arts degree from City Polytechnic of Hong Kong (now known as City University of Hong Kong) in 1992.

KO Fuk Yuen Kenneth

Aged 47, joined the Group in April 2010, and is currently the Deputy Managing Director – Global Freight Forwarding. Mr Ko is also a director of Kerry Freight (Hong Kong) Limited, a wholly-owned subsidiary of the Company, and responsible for the development of the global freight forwarding business of the Group.

He has over 25 years of experience in the logistics industry. He was a vice-chairman of the executive committee of Hongkong Association of Freight Forwarding and Logistics Limited from 2011 to 2015.

Mr Ko obtained a bachelor of management studies degree from the University of Hong Kong in 2003.

LAU Kin Pui Samuel

Aged 52, joined the Group in April 2000. Mr Lau is currently the Deputy Managing Director – Integrated Logistics with the responsibility of overseeing the integrated logistics business of the Group.

He has over 20 years of experience in the logistics industry. Mr Lau is a committee member of the Hong Kong Logistics Development Council under the Transport and Housing Bureau of the Hong Kong Government and the Logistics Services Advisory Committee in the Hong Kong Trade Development Council.

Mr Lau obtained a bachelor of arts degree in business studies from City Polytechnic of Hong Kong (now known as City University of Hong Kong) in 1991.

LEE Wai Shun Wilson

Aged 52, joined the Group in April 2004. Mr Lee is the Group Director of Information Technology and is responsible for overseeing the global information technology development of the Group.

He has 30 years of experience in information system development and technology management in a number of multinational listed companies.

Mr Lee obtained a bachelor of science degree from The Chinese University of Hong Kong in 1989 and a master of science degree in corporate governance and directorship from Hong Kong Baptist University in 2010.

RENARD-BIRON Mathieu Vincent

Aged 52, joined the Group in April 2018 as Managing Director – Global Freight Forwarding to take up the leadership and oversee the overall management of the global freight forwarding business of the Group.

Prior to joining the Group, Mr Biron had 27 years based and managing businesses in various markets of Asia Pacific. He also had experience and leadership across the full range of supply chain services, entrusted with several business transformation challenges in both logistics and manufacturing sectors.

Mr Biron obtained his master's degree in economics and finance from Paris Institute of Political Studies in 1988.

SHEN Chung-Kui

(Also known as Richard SHEN), aged 76, has been the Chairman of Kerry TJ since November 2008.

He has over 45 years of experience in the logistics industry, ranging from trucking, container terminal, port operation, warehousing businesses and documentation. He is responsible for overseeing the Taiwan logistics operations of the Group.

Mr Shen is currently the chairman of the Hong Kong Business Association in Taiwan. He is also an executive committee member of the Federation of Hong Kong Business Associations Worldwide.

Mr Shen graduated from the Shipping and Transportation Management Faculty of the National Taiwan Ocean University in 1972. He also completed various training courses, including Dale Carnegie Course Training in San Francisco, United States in 1983, General Management Program at Ashridge College in London, United Kingdom in 1993 and Shipping Management research study at China Maritime Institute, Taiwan in 1988.

TAN Kai Whatt Robert

Aged 62, joined the Group in January 2004 as a director of a subsidiary of the Company. Mr Tan is the Managing Director – South & South East Asia and is responsible for the development and expansion of the Group's network in South and South East Asia, including Singapore, Malaysia, Indonesia, Thailand, Vietnam, India, Bangladesh, Pakistan, the Philippines, Sri Lanka and the Middle East. He has 24 years of experience in the logistics industry.

Mr Tan obtained his master's degree from the Asian Institute of Management in the Philippines in 2003.

YIP Kam Sang Alan

Aged 59, joined the Group in September 2012 and is currently the Deputy Managing Director – Regional Operations in charge of logistics operations, business expansion, sales and marketing, and development of the Group's network in Americas and Oceania, including Canada, United States, Mexico, Brazil, LATAM region, Australia and New Zealand. Mr Yip has developed and implemented a comprehensive management and operation analysis system, which has improved the operations efficiency, service capability, and overall business performance of the Group. He manages a fully integrated logistics operation in these regions ranging from freight forwarding, warehousing, domestic trucking, perishable and cold chain, to distribution.

Prior to joining the Group, Mr Yip worked in the United States for over 25 years in various high technology, financial and Government sectors.

Mr Yip graduated from the University of Wisconsin with a bachelor degree in mathematics and computer science and also from the University of Illinois with a master of science degree in electrical engineering and computer sciences.

REPORT OF DIRECTORS

The Directors are pleased to present this annual report together with the Financial Statements.

PRINCIPAL ACTIVITIES

The Group operates as a leading logistics service provider in Asia principally engaged in IL and IFF businesses. The principal activities of the Company are as follows:

(i) IL services, including storage and value-added services, trucking and distribution, returns management and various ancillary services, primarily in Asia;

(ii) leasing of warehousing space in Hong Kong; and

(iii) IFF services intra-Asia and between Asia and Europe to transport cargo using air freight, ocean freight and cross-border road freight forwarding services.

Details of the principal activities of the principal subsidiaries are set out in note 40 to the Financial Statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the section headed "Statement of Accounts" of this annual report.

BUSINESS REVIEW

OVERVIEW AND PERFORMANCE OF THE YEAR

Global economic growth moderated in 2018. The US-instigated trade tension, in particular with Mainland China, reverberated far and wide, casting uncertainties over the global trade landscape. In contrast, the economic growth in emerging Asia, specifically in the Southeast Asian countries, continued its strong momentum. These countries have become key links in regional manufacturing supply chains partly due to their relatively low labour costs and partly as a result of production base relocation from Mainland China to mitigate tariff risks.

With an unparalleled network in Asia, Kerry Logistics is well-positioned to capitalise on the robust growth in the region. Increasing demand in intra-Asia trade and e-commerce business accelerated the Group's IL businesses. Consequently, the Group recorded a double-digit increase in turnover, core operating profit, and core net profit in 2018, achieving positive growth for the ninth consecutive year. The Group's broad geographical coverage and diversified businesses enabled it to absorb some of the impact of the global supply chain shifts resulting from the intensifying trade tension between the US and Mainland China. The Group strengthened its presence and service capabilities in the countries along the Belt and Road trade routes to embrace long-term growth facilitated by the infrastructure developments therein.

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

Discussion on the Company's performance of the year is set out in the section headed "Management Discussion and Analysis – Results Overview" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company strives to develop and operate an environmental management system that sets high standards on pollution prevention, preservation of natural resources and adherence to environmental laws and regulations. We require all our employees and contractors to adhere to this policy. We believe our high environmental standards can put us in better position to compete with other logistics service providers in light of the rising environmental initiatives of multinational corporations.

Our efforts in environmental protection have been well recognised. The Company has obtained the international certification of ISO14001, an internationally agreed standard that sets out the requirements for an environmental management system.

We care about our environment and work to make our operations greener through managing emissions, optimizing the use of resources and protecting the natural environment and ecosystems that we rely on.

The Board has overall responsibility for our ESG strategy and reporting. In line with the CG Code, the Board is responsible for evaluating and determining our ESG related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. A confirmation regarding the effectiveness of these systems has been provided to the Board during the year ended 31 December 2018.

Further details are set out in the sections headed "Environmental, Social and Governance Report – Value Created for Our Environment" and "Corporate Governance Report – Risk Management and Internal Controls" of this annual report.

Discussion on our compliance with relevant environmental laws and regulations is set out in the section headed "Compliance with relevant Laws and Regulations" in this Report of Directors.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

REGULATORY COMPLIANCE

The Group has complied with the requirements under the Companies Ordinance, the Listing Rules, the SFO and the CG Code for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code.

IL and IFF businesses are not heavily regulated in any of the countries and territories in which we operate. Unlike our suppliers (such as airlines and shipping lines) or customers (such as manufacturers and retailers in various industries), we do not own or operate any aircraft or vessels, nor are we principally engaged in the manufacture or sale of any industrial or consumer products. We are therefore not subject to any material legal or regulatory requirements which apply to the air transportation or shipping industries or any of our customers' industries.

During the year, there were no findings notified to us by any regulatory authority in the jurisdictions in which we operate of any material non-compliance with any law or regulation to which the businesses are subject.

LICENSING REQUIREMENTS

The Group is required to comply with the regulatory requirements to obtain and maintain certain licences and permits in the jurisdictions in which we operate. Many of these licences and permits are subject to regular review, replacement or renewal.

Each of our local management teams performs its own function to ensure that we maintain the necessary licences and permits to operate our businesses in each jurisdiction. The Group has been able to renew our major licences and permits without significant difficulties during the year.

ENVIRONMENTAL PROTECTION

We have not been subject to any fines or legal action involving any material non-compliance with any relevant environmental regulations, nor are we aware of any threatened or pending action by any relevant environmental regulatory authority.

KEY RELATIONSHIPS WITH STAKEHOLDERS

EMPLOYEES

People are the backbone of our operations and the key to our success as the leader in providing exceptional services. We are committed to creating opportunities for our employees to develop their full potential by considering all aspects of their lives. We firmly believe in the power and possibility of the next generation and strives to nurture these talents through our comprehensive MT Programme.

The YEA, established in 2001, has been supporting our strategic growth by grooming high-calibre talent. The YEA is comprised of four systematic programmes, which are tailored for candidates at various stages of their career development.

We are committed to creating real value for employees through rewarding careers, workplace quality and work-life balance. To echo our core values VOICE, we provide regular on-the-job trainings, reward schemes and job secondment/relocation opportunities for all employees to propel work excellence within the global scope. We believe these measures could further enhance employee involvement and engagement as part of a team.

CUSTOMERS

We currently serve more than 40 of the Top 100 Brands (ranked by Interbrand, a well-recognised global brand consultancy) across a wide spectrum of industries. By leveraging our experience in serving the supply chains in various industries, we have developed significant industry expertise and applied innovative processes across industries to better serve our customers. We have been successful in offering industry-specific solutions, including the fashion and lifestyle, electronics and technology, food and beverage, fast-moving consumer goods, industrial and material sciences, automotive, and pharmaceutical and healthcare industries.

Our one-stop services range from vendor-managed inventory, cold chain management, nationwide warehousing and distribution to return management. Committed to high quality services, our business, around the world have achieved various certifications such as ISO9001 quality management system, and Facility Security Requirements of the Transport Asset Protection Association.

Within most of these industries, we manage outsourced supply chains that are sophisticated, regional in scale and critical to our customers' core business. This creates opportunities for us to become an integral part of our customers' operations. In addition, we have established long-standing relationships with many of our key customers, which are due in part to our ability to continually meet or exceed their requirements for quality and reliability of service. We believe our supply chain solutions have offered our customers compelling value propositions, making us their preferred logistics service provider.

SUPPLIERS

Our main suppliers include airlines and shipping lines from which we procure air or ocean cargo space in connection with our freight forwarding business. We do not enter into any long-term supply contracts or any firm commitment to purchase air or ocean cargo space for freight forwarding purposes.

Our suppliers also include landlords of leased logistics facilities that we manage in connection with our IL business, as well as suppliers of goods in connection with our trading business. We manage a large portfolio of leased logistics facilities located primarily in Asia.

INDUSTRY AWARDS AND ACCREDITATIONS

We have received a number of industry awards and accreditations in recognition of our leading position and achievements in the logistics services industry in Asia. Details are set out in the section headed "Awards and Citations" of this annual report.

CORPORATE SOCIAL RESPONSIBILITY

Details of corporate social responsibility are set out in the section headed "Environmental, Social and Governance Report" of this annual report.

KEY RISKS AND UNCERTAINTIES

The Board has continuously monitored the areas that are likely to pose more significant risks to the Company based on the results of the risk assessment interviews previously conducted by external auditor. The Company has implemented various measures to mitigate these risks or uncertainties. Further reviews are set out in the section headed "Corporate Governance Report – Risk Management and Internal Controls".

UNCERTAINTIES IN THE GLOBAL BUSINESS ENVIRONMENT

Uncertainties over political and economic situations worldwide expose the Group to the risk of non-sustainable growth. The bearish market view triggered downward adjustments in sales and production targets resulting in a decline in cargo volume.

The Group has been mitigating this risk by diversifying its business portfolio, markets and customer pools in order to minimize the adverse impact on its business with quick response to market changes.

INTEGRATION OBSTACLES

The Group expands its network and global coverage mainly through mergers and acquisitions. Differences in operation models, culture and availability of resources may hinder the integration of the new member into the Group if not properly monitored.

To mitigate this, a robust due diligence process has been in place to ensure the target companies are the right acquires. Integration checklists in all aspects including human resources, finance, information technology, legal and compliance etc. have been set up. The Company has outsourced to develop a smart integration playbook to enhance the control of the integration progress. Our internal audit will conduct independent check on the governance and performance of the acquired business.

SUCCESSION PLANNING AND POTENTIAL LOSS OF TALENTS

The Group currently places heavy reliance on certain key managerial members. There has been succession planning prepared for certain divisions of the Company.

The Group has mitigated this by using the MT Programme developed under The YEA since 2001 to nurture staff with high potential to be future management, hiring remuneration consultant to benchmark salary level of management to the Company's competitors, re-organising the management structure with more short-term incentives to management, and implementing succession plan for areas in need, particularly for key management.

CONCERNS OVER KEY INFORMATION SYSTEMS (BOTH OPERATIONAL AND FINANCIAL)

Due to the nature of the business, the Group cannot afford any information technology disruption. Therefore, efficient maintenance and recovery of information technology systems are very important to the Group. The ability to develop systems within a reasonable timeframe to support business needs is also critical.

To mitigate this, periodic disaster recovery plan and drill tests are performed. The Group will also outsource or relocate part of the development or maintenance of the systems to third parties in a cost-effective manner. System integration and automate data flows are performed to reduce human interference in order to reduce the risks of human error and time of data processing. During the year, the Company had also engaged external consultant to carry out cyber security risk assessment to assess its cyber protection capabilities.

CREDIT RISK IN RELATION TO COUNTERPARTIES

Adverse performance of the Group's customers due to decline in the demand of their products will increase the Group's counterparties risk with these customers. Long credit period of top customers may lead to unsatisfactory cash flow of the Group.

The Group has mitigated this by tightening account receivables and setting up credit monitoring controls, for example, to produce a periodic credit report consisting of top 50 to 100 customers for management review. Tighten protective measures are implemented, for example, by the holding of customers' stocks stored in the Group's facilities before payments are settled, and requesting for deposit before provision of services.

OTHER FINANCIAL RISKS

Further discussion on financial risks are set out in the section headed "Management Discussion and Analysis – Financial Review" and note 3 to the Financial Statements of this annual report.

OUTLOOK

Discussion on outlook is set out in the section headed "Management Discussion and Analysis – Business Review" of this annual report.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2018

On 28 March 2019, the Company and its indirect wholly-owned subsidiary, among others, entered into two sale and purchase agreements to dispose of its warehouses in Chai Wan and Shatin to KPL through an indirect wholly-owned subsidiary of KPL. For details, please refer to an announcement made by the Company in relation to this disposal on 28 March 2019.

FINAL DIVIDEND

The Board resolved to propose to the Shareholders in the forthcoming AGM for the distribution of a final dividend of 16 HK cents per share for the year ended 31 December 2018 payable to the Shareholders whose names are listed in the Registers of Members on Thursday, 6 June 2019. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the forthcoming AGM.

SHARE CAPITAL

Details of the share capital of the Company during the year ended 31 December 2018 are set out in note 26 to the Financial Statements.

RESERVES

Details of the movements in reserves of the Group during the year ended 31 December 2018 are set out in note 27 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company has distributable reserves of HK$1,185 million in total available for distribution, of which HK$273 million has been proposed as final dividend for the year, which is calculated in accordance with generally accepted accounting principles.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out in the section headed "2014-2018 Financial Summary" of this annual report.

DONATIONS

The Group made a donation of HK$1.4 million to charity projects or organisations for the year.

RETIREMENT BENEFITS

Please refer to note 31 to the Financial Statements for details of the retirement benefits of the Group for the year ended 31 December 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 16 to the Financial Statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the year ended 31 December 2018 are set out in notes 28 and 29 to the Financial Statements.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group has no material contingent liabilities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda.

DIRECTORS

The Directors during the year and up to the date of this annual report are:

Executive Directors
Mr YEO George Yong-boon (Chairman)
Mr MA Wing Kai William (Group Managing Director)
Mr KUOK Khoon Hua
Mr ERNI Edwardo (resignation effective from 1 January 2019)
Mr NG Kin Hang (appointment effective from 1 January 2019)

Non-executive Director
Mr CHIN Siu Wa Alfred

Independent Non-executive Directors
Ms KHOO Shulamite N K
Mr WAN Kam To
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok
Mr ZHANG Yi Kevin

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Directors and Senior Management" of this annual report.

DIRECTORS' LETTER OF APPOINTMENT

Each of the Directors has signed an appointment letter with the Company for an initial term commencing from his/her respective date of appointment until the next general meeting of the Company, at which he/she will be eligible for re-election. Upon being re-elected, the appointment of the Director shall continue for a period of three years and until the conclusion of the third annual general meeting of the Company or such earlier date pursuant to the Bye-laws. The appointments of the Directors are subject to the provisions of retirement and rotation of Directors in accordance to the Bye-laws.

According to Article 99 of the Bye-laws, the number of Directors retiring at each annual general meeting shall not be less than one-third of the Directors for the time being, and any retiring Director shall be eligible for re-election at the same annual general meeting. Mr YEO George Yong-boon, Mr CHIN Siu Wa Alfred, Mr WAN Kam To and Ms WONG Yu Pok Marina will be retiring and be subject to re-election in the forthcoming AGM.

Mr YEO George Yong-boon informed the Board that he intended to retire and not subject to re-election as the Chairman of the Board, an Executive Director, a member of the Remuneration Committee and the chairman of each of the Nomination Committee and the Finance Committee with effect from the conclusion of the forthcoming AGM (the "Effective Date"), Mr CHIN Siu Wa Alfred informed the Board that he intended to retire and not subject to re-election as a Non-executive Director and a member of the Audit and Compliance Committee with effect from the Effective Date, and Mr WAN Kam To informed the Board that he intended to retire and not subject to re-election as an Independent Non-executive Director and a member of each of the Audit and Compliance Committee and the Remuneration Committee with effect from the Effective Date. As such, Mr KUOK Khoon Hua, an Executive Director, has been appointed as the Chairman of the Board with effect from the Effective Date to replace Mr YEO George Yong-boon. Ms TONG Shao Ming has been appointed as a Non-executive Director with effect from 1 June 2019 to replace Mr CHIN Siu Wa Alfred. As at the date of publication of the relevant announcement on 12 April 2019, the composition of the various board committees is still subject to finalisation.

According to Article 102 of the Bye-laws, any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr NG Kin Hang, who was appointed by the Board on 21 December 2018 (effective from 1 January 2019), will be retiring and be subject to re-election in the forthcoming AGM.

None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract that is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors, namely Ms KHOO Shulamite N K, Mr WAN Kam To, Ms WONG Yu Pok Marina, Mr YEO Philip Liat Kok and Mr ZHANG Yi Kevin, the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. The Company considers that the Independent Non-executive Directors have been independent from the date of their appointment to 31 December 2018 and remain so as at the date of this annual report.

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

(I) THE COMPANY[(1)]

Directors	Ordinary Shares in the Company: 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
YEO George Yong-boon[(2)]	3,000,000	5,000	–	2,000,000	5,005,000	0.29%
MA Wing Kai William[(3)]	4,291,510	–	–	1,300,000	5,591,510	0.33%
ERNI Edwardo (resignation effective from 1 January 2019)[(4)]	2,500,500	8,000	–	–	2,508,500	0.15%
KUOK Khoon Hua[(5)]	1,101,000	–	–	3,018,492	4,119,492	0.24%
NG Kin Hang (appointment effective from 1 January 2019)[(6)]	120,000	–	–	–	120,000	0.01%
CHIN Siu Wa Alfred[(7)]	100,000	–	–	1,300,000	1,400,000	0.08%
WAN Kam To[(8)]	200,000	–	–	–	200,000	0.01%
WONG Yu Pok Marina[(9)]	200,000	–	–	–	200,000	0.01%
YEO Philip Liat Kok[(10)]	200,000	–	–	–	200,000	0.01%

Notes:

(1) All interests in Ordinary Shares in the Company were as at 31 December 2018.

(2) Mr Yeo is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; (ii) options granted under the Post-IPO Share Option Scheme to subscribe for 1,000,000 Ordinary Shares; (iii) 5,000 Ordinary Shares held by his spouse; and (iv) 2,000,000 Ordinary Shares held jointly with his spouse.

(3) Mr Ma is interested in (i) 291,510 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 3,000,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 1,000,000 Ordinary Shares; and (iv) 1,300,000 Ordinary Shares held through a discretionary trust of which Mr Ma is a discretionary beneficiary.

(4) Mr Erni's resignation as Executive Director was effective from 1 January 2019. He is interested in (i) 500 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 500,000 Ordinary Shares; and (iv) 8,000 Ordinary Shares held by his spouse.

(5) Mr Kuok is interested in (i) 101,000 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 800,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (iv) 3,018,492 Ordinary Shares held through discretionary trusts of which Mr Kuok is a discretionary beneficiary.

(6) Mr Ng's appointment as Executive Director was effective from 1 January 2019. He is interested in options granted under the Pre-IPO Share Option Scheme to subscribe for 120,000 Ordinary Shares, which were granted to him during his service as an employee of the Company and prior to his appointment as Executive Director.

(7) Mr Chin is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 100,000 Ordinary Shares; and (ii) 1,300,000 Ordinary Shares held through a discretionary trust of which Mr Chin is a discretionary beneficiary.

(8) Mr Wan is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.

(9) Ms Wong is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.

(10) 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)]

	Ordinary shares in KGL					
Directors	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	Approximate percentage of issued share capital
MA Wing Kai William[(2)]	1,810,620	–	–	–	1,810,620	0.12%
ERNI Edwardo (resignation effective from 1 January 2019)[(3)]	650,000	–	–	–	650,000	0.04%
KUOK Khoon Hua[(4)]	2,000,000	–	–	223,967,363	225,967,363	14.86%
CHIN Siu Wa Alfred[(5)]	1,500,000	–	500,000	–	2,000,000	0.13%

Notes:

(1) All interests in ordinary shares in KGL were as at 31 December 2018.

(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) 223,967,363 ordinary shares in KGL held through discretionary trusts of which Mr Kuok is a discretionary beneficiary.

(5) Mr Chin is interested in (i) 500,000 ordinary shares in KGL as beneficial owner; (ii) options granted under the share option scheme of KGL to subscribe for 1,000,000 ordinary shares in KGL; and (iii) 500,000 ordinary shares in KGL held through his controlled corporation.

Kerry Properties Limited[1]

Directors	Ordinary shares in KPL: 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
YEO George Yong-boon[2]	–	10,000	–	–	10,000	0.00%
MA Wing Kai William[3]	841,020	–	–	50,000	891,020	0.06%
ERNI Edwardo (resignation effective from 1 January 2019)[4]	40,000	16,000	–	–	56,000	0.00%
KUOK Khoon Hua[5]	1,179,413	–	–	3,297,763	4,477,176	0.31%
CHIN Siu Wa Alfred[6]	–	–	–	50,000	50,000	0.00%

Notes:

(1) All interests in ordinary shares in KPL were as at 31 December 2018.

(2) Mr Yeo is interested in 10,000 ordinary shares in KPL held by his spouse.

(3) Mr Ma is interested in (i) 341,020 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 500,000 ordinary shares in KPL; and (iii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Ma is a discretionary beneficiary.

(4) Mr Erni is interested in (i) options granted under the share option scheme of KPL to subscribe for 40,000 ordinary shares in KPL; and (ii) 16,000 ordinary shares in KPL held by his spouse.

(5) Mr Kuok is interested in (i) 1,179,413 ordinary shares in KPL as beneficial owner; and (ii) 3,297,763 ordinary shares in KPL held through discretionary trusts of which Mr Kuok is a discretionary beneficiary.

(6) Mr Chin is interested in 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Chin is a discretionary beneficiary.

Hopemore Ventures Limited[1]

Director	Ordinary shares in Hopemore					
	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	50[2]	–	–	–	50	3.57%

Notes:

(1) All interests in ordinary shares in Hopemore were as at 31 December 2018.
(2) Mr Kuok is interested in 50 ordinary shares in Hopemore as beneficial owner.

Majestic Tulip Limited[1]

Director	Ordinary shares in Majestic					
	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	10[2]	–	–	–	10	3.33%

Notes:

(1) All interests in ordinary shares in Majestic were as at 31 December 2018.
(2) Mr Kuok is interested in 10 ordinary shares in Majestic as beneficial owner.

Medallion Corporate Limited[1]

Director	Ordinary shares in Medallion: 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 31 December 2018.
(2) Mr Kuok is interested in 48 ordinary shares in Medallion as beneficial owner.

Rubyhill Global Limited[1]

Director	Ordinary shares in Rubyhill: 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	1[2]	–	–	–	1	10.00%

Notes:

(1) All interests in ordinary shares in Rubyhill were as at 31 December 2018.
(2) Mr Kuok is interested in 1 ordinary share in Rubyhill as beneficial owner.

Vencedor Investments Limited[1]

Director	Ordinary shares in Vencedor 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 31 December 2018.
(2) Mr Kuok is interested in 5 ordinary shares in Vencedor as beneficial owner.

Save as disclosed above, as at 31 December 2018, the Company is not aware of any other Director or the chief executive of the Company who 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..

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

As at 31 December 2018, 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]	65.75%
Kerry Holdings Limited	Interest of controlled corporations	1,090,758,684[1]	63.96%
Kerry Properties Limited	Beneficial owner	718,340,998[1]	42.12%
Caninco Investments Limited	Beneficial owner	156,124,097[1]	9.16%
Darmex Holdings Limited	Beneficial owner	128,449,630[1]	7.53%
GIC Private Limited	Investment manager	102,189,240	5.99%

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 31 December 2018, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group, none of the Directors and Controlling Shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended 31 December 2018 and up to the date of this annual report.

SIGNIFICANT ACQUISITION/DISPOSAL

The following disposal constitutes a discloseable transaction for the Company.

1 DISPOSAL OF CERTAIN SHARES IN A NON WHOLLY-OWNED SUBSIDIARY

On 23 April 2018, KLN Logistics (Thailand) Limited (a deemed subsidiary of the Company which owns 80% of the target company, Kerry Express Thailand, an indirect non wholly-owned subsidiary of the Company at the relevant time) together with the remaining shareholders of Kerry Express Thailand as vendors, entered into a term sheet with VGI Global Media Public Company Limited, a subsidiary of BTS PLC, listed on the Stock Exchange of Thailand as the purchaser, pursuant to which the vendors would sell and the purchaser would purchase 23% of the total issued share capital of Kerry Express Thailand, for a consideration of THB5,900,611,083 (approximately HK$1,475 million). The relevant parties have executed the share sale and purchase agreement, share subscription agreement and shareholders' agreement based on the term sheet on 17 May 2018.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the disposal is more than 5% but less than 25%, the disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules, and the Company was therefore subject to the reporting and announcement requirements under the Listing Rules. Please refer to the announcements of the Company dated 24 April 2018, 17 May 2018 and 24 May 2018 for details.

CONNECTED TRANSACTION

The Company did not enter into any connected transactions required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Among the related party transactions disclosed in note 37 to the Financial Statements, the following transactions constitute continuing connected transactions for the Company and is required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules.

1 FRAMEWORK AGREEMENTS WITH KPL

On 28 July 2014, the Company entered into a framework agreement with KPL (the "Framework Agreement") pursuant to which (i) the Group agreed to provide services including delivery, local courier, freight, freight agency, insurance brokerage and related services, and services relating to management and operation of warehouse facilities to KPL and its subsidiaries; and (ii) KPL and its subsidiaries agreed to lease certain properties to the Group (the "KPL Transactions"). KPL is a substantial shareholder and a Controlling Shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the KPL Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Framework Agreement commenced on 1 August 2014 and expired on 31 December 2016. The Framework Agreement can be extended for a further term of three years with the mutual written agreement of the Company and KPL.

The historical annual caps payable by the Group under the KPL Transactions for the three years ended 31 December 2014, 2015 and 2016 are HK$17.7 million, HK$19.7 million and HK$21.7 million, respectively. During the three years ended 31 December 2014, 2015 and 2016, the KPL Transactions payable amounted to HK$12.5 million, HK$10.6 million and HK$9.1 million respectively.

The annual caps receivable by the Group under the KPL Transactions for the three years ended 31 December 2014, 2015 and 2016 are HK$9.3 million, HK$12.0 million and HK$15.3 million, respectively. During the three years ended 31 December 2014, 2015 and 2016, the KPL Transactions receivable amounted to HK$6.1 million, HK$6.8 million and HK$6.8 million respectively.

The Company renewed the Framework Agreement by entering into a new framework agreement with KPL on 9 December 2016 (the "New Framework Agreement") for a fixed term of three years, and to set new annual caps for the KPL Transactions for the two years ended 31 December 2017 and 2018 and the year ending 31 December 2019. The proposed new annual caps payable by the Group under the KPL Transactions for the two years ended 31 December 2017 and 2018 and the year ending 31 December 2019 are HK$11.6 million, HK$12.0 million and HK$12.4 million, respectively. The proposed new annual caps receivable by the Group under the KPL Transactions for the two years ended 31 December 2017 and 2018 and the year ending 31 December 2019 are HK$9.9 million, HK$10.5 million and HK$11.5 million, respectively. Please also refer to the announcement of the Company dated 9 December 2016 for details.

During the two years ended 31 December 2017 and 2018, the KPL Transactions payable amounted to HK$8.7 million and HK$8.6 million and the KPL Transactions receivable amounted to HK$7.7 million and HK$8.7 million.

2 TRANSACTIONS WITH KHK

KHK is an associate of KPL and is therefore a connected person of the Company under the Listing Rules. In the ordinary and usual course of business, the Group has entered into and continued to enter into transactions with KHK on normal commercial terms for KHK to provide leased premises to the Group (the "KHK Transactions") for use as warehouses and car parking spaces and to provide related building management services. The amounts paid by the Group to KHK were determined after arm's length negotiations between the parties with reference to prevailing market rates for similar types of premises and services. Please refer to the section headed "Connected Transactions" in the Prospectus for details.

The Group has entered into rental agreements and car parking spaces rental letters (the "KHK Agreements") with KHK in respect of the KHK Transactions, pursuant to the requirements under Rules 14A.34 and 14A.52 of the Listing Rules. Such KHK Agreements are for a fixed term of not more than three years and are on normal commercial terms. The historical annual caps on the rental and building management fees payable under the KHK Transactions for the three years ended 31 December 2013, 2014 and 2015 are HK$39.0 million, HK$42.0 million and HK$46.0 million, respectively. During the years ended 31 December 2013, 2014 and 2015, the total amount paid by the Group under the KHK Transactions amounted to HK$37.1 million, HK$36.0 million and HK$38.5 million respectively.

Upon the expiration of the annual caps for the KHK Transactions on 31 December 2015, the Group entered into new agreements with KHK for a fixed term of not more than three years from 1 January 2016 to 31 December 2018, and to set new annual caps for the KHK Transactions for the three years ended 31 December 2016, 2017 and 2018. Please refer to the announcement of the Company dated 11 December 2015 for details.

The new annual caps payable by the Group under the KHK Transactions for the three years ended 31 December 2016, 2017 and 2018 are HK$44.5 million, HK$48.5 million and HK$50.0 million respectively. During the three years ended 31 December 2016, 2017 and 2018, the KHK Transactions payable amounted to HK$39.5 million, HK$33.7 million and HK$28.6 million respectively.

Upon the expiration of the annual caps for the KHK Transactions on 31 December 2018, the Group and KHK have decided not to renew the KHK Transactions. Thus, the transactions in respect of the KHK Transactions would be fully exempt continuing connected transactions under the Listing Rules.

The Independent Non-executive Directors, having considered the summary of continuing connected transactions of the Group as recorded during the year, have confirmed that the above continuing connected transactions for the year ended 31 December 2018 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Our management has assigned the finance team of the Company to monitor the continuing connected transactions. They regularly communicate with the heads of all stations of the Group regarding the terms and pricing policies of the continuing connected transactions prepared in accordance with the Listing Rules and relevant guidances and collect monthly financial data together with underlying agreements for analysis. The finance team of the Company is also responsible for preparing monthly financial reports in order to monitor the annual caps of the continuing connected transactions. Policies and procedures have also been set up to ensure that the internal controls in relation to the above continuing connected transactions for the year ended 31 December 2018 were adequate and effective.

The auditor of the Company has issued its unqualified letter containing its findings and conclusions in respect of the abovementioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, confirming that (i) nothing has come to their attention that causes the auditor to believe that the abovementioned continuing connected transactions have not been approved by the Company's board of directors, (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group, (iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions, and (iv) with respect to the aggregate amount of each of the KPL Transactions and the KHK Transactions, nothing has come to their attention that causes the auditor to believe that the amounts have exceeded the maximum aggregate annual value disclosed in the announcements dated 9 December 2016 and 11 December 2015 respectively. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

In addition, certain transactions disclosed in note 37 to the Financial Statements also constitute continuing connected transactions under the Listing Rules. The applicable percentage ratios (except profits ratio) for the transactions are under 0.1% and therefore the transaction is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules.

Save for the above, during the year ended 31 December 2018, the Company has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the Rules 14A.49 and 14A.71 of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in relation to each of the KPL Transactions and the KHK Transactions in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

None of the Directors or entities connected with the Directors is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018 and up to the date of this annual report.

CONTRACT OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this report, during the year ended 31 December 2018, there is no other contract of significance entered into between the Group and our Controlling Shareholders.

MANAGEMENT CONTRACTS

No contracts other than the service contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018 and up to the date of this annual report.

DIRECTORS' REMUNERATION

The Group offers competitive remuneration packages to the Directors, and the Directors' fees are subject to the Shareholders' approval at general meeting. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

Details of the Directors' remuneration during the year ended 31 December 2018 are set out in note 12 to the Financial Statements.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director or other officer of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, liabilities, losses, damages and expenses which they or any of them may sustain or incur in connection with their duties or the exercise of their powers. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2018.

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 31 December 2018, a total of 25,588,500 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 year ended 31 December 2018 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 01/01/2018	Transfer from other category during the year	Transfer to other category during the year	Exercised (Notes a and b)	Lapsed	Outstanding as at 31/12/2018	Exercise price HK$	Exercise period
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 (resignation effective from 1 January 2019) (Note d)	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
NG Kin Hang (appointment effective from 1 January 2019) (Note e)	02/12/2013	I	-	60,000	-	-	-	60,000	10.20	19/12/2013 - 01/12/2023
	02/12/2013	II	-	60,000	-	-	-	60,000	10.20	02/12/2014 - 01/12/2023
CHIN Siu Wa Alfred	02/12/2013	I	100,000	-	-	(100,000)	-	-	10.20	19/12/2013 - 01/12/2023
	02/12/2013	II	100,000	-	-	-	-	100,000	10.20	02/12/2014 - 01/12/2023
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
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
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

Category	Date of grant (Note c)	Tranche	Number of options: Outstanding as at 01/01/2018	Transfer from other category during the year	Transfer to other category during the year	Exercised (Notes a and b)	Lapsed	Outstanding as at 31/12/2018	Exercise price HK$	Exercise period
2. Continuous Contract	02/12/2013	I	12,690,000	1,000,000	(60,000)	(5,248,000)	(125,000)	8,257,000	10.20	19/12/2013 - 01/12/2023
Employees (Notes d and e)	02/12/2013	II	13,714,500	1,000,000	(60,000)	(3,818,000)	(125,000)	10,711,500	10.20	02/12/2014 - 01/12/2023
Total:			35,004,500	2,120,000	(2,120,000)	(9,166,000)	(250,000)	25,588,500		

Notes:

a. *The weighted average closing price of the Ordinary Shares of the Company immediately before the dates on which the options were exercised was HK$12.18.*
b. *During the year, no option was granted/granted for adjustment or cancelled under the Pre-IPO Share Option Scheme.*
c. *The vesting period of the options is from the date of grant until the commencement of the exercise period.*
d. *Mr Erni's resignation as Executive Director was effective from 1 January 2019 and his options were re-categorised. During the year ended 31 December 2018, no new share options were granted by the Company to Mr Erni and no share options were exercised by Mr Erni in accordance with the terms of the Pre-IPO Share Option Scheme.*
e. *Mr Ng's appointment as Executive Director was effective from 1 January 2019 and his options were re-categorised. During the year ended 31 December 2018, no new share options were granted by the Company to Mr Ng and no share options were exercised by Mr Ng in accordance with the terms of the Pre-IPO Share Option Scheme.*
f. *There are no participants with options granted in excess of the individual limit and no grants to suppliers of goods and services.*

For further details of the Pre-IPO Share Option Scheme, please refer to note 36 to the Financial Statements.

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 31 December 2018, a total of 4,140,000 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 year ended 31 December 2018 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 01/01/2018	Transfer from other category during the year	Transfer to other category during the year	Exercised (Notes a and b)	Lapsed	Outstanding as at 31/12/2018	Exercise price HK$	Exercise period
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 (resignation effective from 1 January 2019) (Note d)	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	09/01/2015	I	725,000	250,000	-	(10,000)	-	965,000	12.26	09/01/2015 - 08/01/2020
Employees	09/01/2015	II	725,000	250,000	-	-	-	975,000	12.26	09/01/2016 - 08/01/2020
Total:			4,150,000	500,000	(500,000)	(10,000)	-	4,140,000		

Notes:

a. *The weighted average closing price of the Ordinary Shares of the Company immediately before the date on which the options were exercised was HK$12.58.*
b. *During the year, no option was granted/granted for adjustment, lapsed or cancelled under the Post-IPO Share Option Scheme.*
c. *The vesting period of the options is from the date of grant until the commencement of the exercise period.*
d. *Mr Erni's resignation as Executive Director was effective from 1 January 2019 and his options were re-categorised. During the year ended 31 December 2018, no new share options were granted by the Company to Mr Erni and no share options were exercised by Mr Erni in accordance with the terms of the Post-IPO Share Option Scheme.*
e. *There are no participants with options granted in excess of the individual limit and no grants to suppliers of goods and services.*

For further details of the Post-IPO Share Option Scheme and the value of options granted during the year ended 31 December 2018, please refer to note 36 to the Financial Statements.

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 on-going 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 31 December 2018, a total of 25,588,500 options granted under the Pre-IPO Share Option Scheme were outstanding, representing approximately 1.50% and 1.50% of the issued share capital of the Company as at 31 December 2018 and the date of this annual report, respectively. No further option could be granted under the Pre-IPO Share Option Scheme	As at 31 December 2018, a total of 4,140,000 options granted under the Post-IPO Share Option Scheme were outstanding As at 31 December 2018, 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 7.21% and 7.20% of the issued share capital of the Company as at 31 December 2018 and the date of this annual report, respectively 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 Global Offering	The exercise price of the 4,350,000 options granted on 9 January 2015 is HK$12.26 Exercise price shall be at least the highest of (i) the nominal value of Share; (ii) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant; and (iii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the grant
8. Remaining life of the scheme	It expired on 19 December 2013	It shall be valid and effective for a period of ten years commencing on 19 December 2013

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales, and the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors or any of their associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers and suppliers.

PROPERTY INTERESTS

Details of the revaluation and movements of the investment properties of the Group during the year are set out in note 14 to the Financial Statements. As at 31 December 2018, the Group have three properties (namely Kerry Cargo Centre, Kerry Warehouse (Tsuen Wan) and Kerry TC Warehouse 2) held for investments where one or more of the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) exceed 5%. Such three properties are held on medium term leases, and the details of which are set out in the section headed "Logistics Facilities".

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2018.

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 year ended 31 December 2018.

COMPLIANCE WITH THE CG CODE

The Company has applied the principles and code provisions as set out in the CG Code. During the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code.

AUDITOR

The Financial Statements of the Group for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, certified public accountants.

PricewaterhouseCoopers shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 and on Thursday, 6 June 2019 during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, unregistered Shareholders shall lodge share transfer documents 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 for registration before 4:30 p.m. on Monday, 27 May 2019. In order to qualify for the proposed final dividend (subject to the approval by the Shareholders at the forthcoming AGM), unregistered holders of shares of the Company shall lodge share transfer documents with Tricor Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Wednesday, 5 June 2019.

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 28 March 2019

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Kerry Logistics Network Limited (the "Company") and its subsidiaries (the "Group") set out on pages 108 to 197, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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INDEPENDENCE

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Business combinations
- Assessment of carrying value of goodwill
- Valuation of investment properties
- Recoverability of accounts receivable

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
BUSINESS COMBINATIONS *Refer to notes 2(b) and 33 to the consolidated financial statements* During the year ended 31 December 2018, the Group acquired a number of subsidiaries for a total consideration of HK$805 million. The total identified net assets acquired amounted to HK$623 million (including the intangible assets of customer relationships and non-compete agreements of HK$224 million) and the goodwill arising from the acquisition amounted to HK$328 million. Accounting for the business combinations is an area of focus because of the significance of the acquisition and the critical accounting estimates and judgements involved in the identification and valuation of intangible assets acquired and valuation of the assets and liabilities that are recognised. When determining the fair value of assets and liabilities recognised in the business combinations, different valuation methodologies including the discounted cash flow model and multi-period excess earnings model were used. Key assumptions used include discount rates, revenue growth rates and gross margins. Any significant changes in these key assumptions may give rise to material changes in the valuation of the acquired assets and liabilities including intangible assets, which directly impacts the valuation of the goodwill recognised. Management engaged an external valuer to value the assets and liabilities of the acquired business, including the identification and valuation of intangible assets.	We performed the following procedures to assess the key assumptions used in assessing the fair value of the assets and liabilities of the acquired business (including the identification and valuation of intangible assets): ▪ inspected relevant contracts related to the business combinations and evaluated management's process to identify intangible assets; ▪ assessed the competence, capabilities and objectivity of management's external valuer; ▪ obtained the valuation reports and discussed with the external valuer the methodologies and key assumptions used; ▪ involved our internal valuation experts to evaluate the methodologies used to determine the fair values of assets and liabilities recognised (including the valuation of intangible assets acquired), and benchmarked the discount rates applied to other comparable companies in the same industry; and ▪ assessed the reasonableness of key assumptions such as revenue growth rates and gross margins applied by management by comparing them with economic and industry forecasts, as well as comparing the current year actual results with the prior year forecast to assess the reasonableness of management forecasts. Based on the procedures performed above, we considered that the key assumptions used in assessing the fair value of the assets and liabilities of the acquired business (including the identification and valuation of intangible assets) are supported by the evidence obtained.

KEY AUDIT MATTER

ASSESSMENT OF CARRYING VALUE OF GOODWILL

Refer to notes 2(g), 4(a)(III) and 13 to the consolidated financial statements

As at 31 December 2018, the Group has a balance of goodwill of HK$3,507 million.

Management tests whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2(g). The recoverable amounts of cash generating units ("CGUs") have been determined based on value-in-use calculations or fair value less costs of disposal. The value-in-use calculations use cash flow projections based on financial budgets approved by management which involve estimates and judgement by management such as determining the discount rates, revenue growth rates and gross margins. Changes in these estimates and assumptions may impact the recoverable amount of goodwill. The fair value less costs of disposal requires the selection of appropriate available market information by management.

This is our area of focus as the valuation is sensitive to the assumptions and judgements made by management. Adverse changes in the assumptions may lead to an impairment of goodwill.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We performed the following procedures to assess the reasonableness of the key assumptions including discount rates, revenue growth rates and gross margins applied by management in the impairment assessment of goodwill based on value-in-use calculations and fair value less costs of disposal:

- involved our internal valuation experts to evaluate the valuation methodologies and assess the reasonableness of the discount rates in the impairment assessment applied by management and benchmarked the discount rates applied to other comparable companies in the same industry;

- agreed the input data used by management to supporting evidence such as actual results and financial budgets approved by management;

- assessed the reasonableness of key assumptions applied in the financial budgets such as revenue growth rates and gross margins applied by management by comparing them with economic and industry forecasts, as well as comparing the current year actual results with the prior year forecast to assess the reasonableness of management forecasts; and

- compared the fair value adopted by management in the fair value less costs of disposal calculations of Kerry TJ Logistics Company Limited ("Kerry TJ"), a subsidiary publicly listed in Taiwan to available market information, including the quoted share prices in active market.

Based on the procedures performed above, we considered that the key assumptions used in the impairment assessment by management are supported by the evidence obtained.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
VALUATION OF INVESTMENT PROPERTIES *Refer to notes 2(f), 4(a)(I) and 14 to the consolidated financial statements* As at 31 December 2018, investment properties were valued at HK$11,039 million with a revaluation gain of HK$1,098 million recognised in the consolidated income statement for the year ended 31 December 2018. Management engaged an independent external valuer who adopted the investment approach and depreciated replacement cost approach to estimate the fair value of the Group's investment properties. The valuation of investment properties is an area of our audit focus as the valuation involves significant assumptions including capitalisation rates and reversionary income used by the external valuer and management.	We performed the following procedures to assess the reasonableness of the key assumptions adopted in the valuation of investment properties: ▪ assessed the competence, capabilities and objectivity of management's external valuer; ▪ obtained the valuation reports and discussed with the external valuer the methodologies and key assumptions used; ▪ involved our internal valuation experts to evaluate the methodologies used and assess reasonableness of the key assumptions used by the external valuer and management, particularly the capitalisation rates and reversionary income by comparing prevailing market rents adopted by the valuer to recent lettings of the underlying investment properties or other comparable properties; and ▪ tested on a sample basis the accuracy of the input data used by the external valuer by agreeing the input data such as rental income and lease terms to the relevant contracts and correspondence held by the Group. Based on the procedures performed above, we considered that the key assumptions used by management in the valuation of investment properties are supported by the evidence obtained.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

RECOVERABILITY OF ACCOUNTS RECEIVABLE

Refer to notes 2(k) and 22 to the consolidated financial statements

As at 31 December 2018, the Group had accounts receivable balances of HK$7,534 million. A provision of HK$152 million has been made as at the year end. We focus on this area as the Group is exposed to the risk of recoverability of these accounts receivable and a change in the provision for accounts receivable, which is subject to the management judgement, could have a significant impact on the financial result of the Group.

Significant judgement is exercised by management in assessing the recoverability of the accounts receivable from individual customers by reviewing the creditworthiness, historical repayment records, ageing analysis, subsequent settlement of the individual customers and forecasts of future events and economic conditions which may impact the recoverability of the accounts receivable.

We performed the following procedures in relation to the management assessment of the recoverability of accounts receivable:

- tested on a sample basis the key controls over the customer's credit policies and the control over the collection of receivables;
- tested on a sample basis the outstanding balances by agreeing the balances to underlying correspondence;
- tested the ageing of accounts receivable at year end on a sample basis;
- identified the accounts receivable balances which are overdue from the debtor ageing analysis and evaluated their historical progress payment records, inspected relevant contracts and correspondence, and assessed their creditworthiness, including if the debtors are experiencing financial difficulties, default or delinquency in interest or principal payments to support the recoverability of material overdue balances;
- tested the subsequent settlements of the accounts receivable balance to cash/bank receipts on a sample basis;
- discussed with management on their assessment of the recoverability of accounts receivable using forward-looking and historical information; and
- evaluated the accuracy of management's estimates on the provision for accounts receivable by comparing the current year actual results with the prior year provision.

Based on the procedures above, we considered that management's assessment of the recoverability of accounts receivable is supported by the evidence obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT AND COMPLIANCE COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRS issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit and Compliance Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ip Koon Wing, Ernest.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

STATEMENT OF ACCOUNTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Turnover	5	38,138,528	30,787,654
Direct operating expenses	7	(33,382,961)	(26,606,662)
Gross profit		4,755,567	4,180,992
Other income and net gains	6	176,462	160,011
Administrative expenses	7	(2,538,268)	(2,178,782)
Operating profit before fair value change of investment properties		2,393,761	2,162,221
Change in fair value of investment properties	14	1,097,933	901,632
Operating profit		3,491,694	3,063,853
Finance costs	8	(224,245)	(159,825)
Share of results of associates and joint ventures	17(b)	110,734	64,784
Profit before taxation		3,378,183	2,968,812
Taxation	9	(506,561)	(469,350)
Profit for the year		2,871,622	2,499,462
Profit attributable to:			
Company's shareholders		2,439,775	2,115,897
Non-controlling interests		431,847	383,565
		2,871,622	2,499,462
Earnings per share	11		
– Basic		HK$1.44	HK$1.25
– Diluted		HK$1.43	HK$1.25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	2,871,622	2,499,462
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement		
Defined benefit pension plans		
– Actuarial losses	(13,014)	(9,892)
– Deferred income tax	2,239	1,682
Fair value change on financial assets at fair value through other comprehensive income	22,290	–
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(538,833)	973,697
Fair value change on available-for-sale investments	–	(2,000)
Other comprehensive (loss)/income for the year (net of tax)	(527,318)	963,487
Total comprehensive income for the year	2,344,304	3,462,949
Total comprehensive income attributable to:		
Company's shareholders	2,025,173	2,857,346
Non-controlling interests	319,131	605,603
	2,344,304	3,462,949

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018	2017
		HK$'000	HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets	13	4,250,877	3,884,482
Investment properties	14	11,039,020	9,892,482
Leasehold land and land use rights	15	590,450	625,550
Property, plant and equipment	16	10,347,048	9,423,181
Associates and joint ventures	17	1,472,268	1,409,486
Financial assets at fair value through other comprehensive income	18	170,799	–
Available-for-sale investments	18	–	100,811
Investment in convertible bonds	19	192,710	564,397
Deferred taxation	30	85,580	98,432
		28,148,752	25,998,821
Current assets			
Financial assets at fair value through profit or loss	21	261,884	109,841
Investment in convertible bonds	19	351,052	–
Inventories	20	425,217	333,758
Accounts receivable, prepayments and deposits	22	9,502,889	7,568,472
Tax recoverable		15,281	41,236
Amounts due from fellow subsidiaries	23	1,508	5,641
Restricted and pledged bank deposits	24(a)	20,148	22,926
Cash and bank balances	24(b)	4,305,949	3,569,626
		14,883,928	11,651,500
Current liabilities			
Accounts payable, deposits received and accrued charges	25	6,795,738	5,565,831
Amounts due to fellow subsidiaries	23	–	451
Amounts due to related companies	23	24,795	34,375
Taxation		368,407	246,348
Short-term bank loans and current portion of long-term bank loans	29	4,936,902	3,955,722
Bank overdrafts	24(b)	193,076	51,006
		12,318,918	9,853,733

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Loans from non-controlling interests	28	177,833	166,826
Long-term bank loans	29	4,569,564	4,198,758
Deferred taxation	30	673,955	662,629
Retirement benefit obligations	31	112,921	137,054
Other non-current liabilities	25	1,511,941	1,364,443
		7,046,214	6,529,710
ASSETS LESS LIABILITIES		23,667,548	21,266,878
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	26	852,632	848,044
Share premium and other reserves	27	3,140,183	2,793,363
Retained profits		17,221,259	15,400,585
		21,214,074	19,041,992
Put options written on non-controlling interests		(1,170,801)	(1,218,331)
		20,043,273	17,823,661
Non-controlling interests		3,624,275	3,443,217
TOTAL EQUITY		23,667,548	21,266,878

On behalf of the Board

YEO George Yong-boon

Director

MA Wing Kai William

Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018	2017
		HK$'000	HK$'000
Operating activities			
Net cash generated from operations	32(a)	2,344,326	2,231,913
Interest paid	8	(224,245)	(159,825)
Income tax paid		(457,693)	(407,142)
Net cash generated from operating activities		1,662,388	1,664,946
Investing activities			
Additions of property, plant and equipment	16	(1,889,075)	(1,535,233)
Purchase of convertible bonds	19	–	(5,873)
Purchase of leasehold land and land use rights	15	(16,313)	(54,535)
Purchase of financial assets at fair value through other comprehensive income		(50,539)	–
Proceeds from sale of property, plant and equipment		125,884	143,839
Proceeds from sale of an investment property		–	78,497
Reduction of capital in investment in an associate		–	21,311
Proceeds from sale of subsidiaries, net of cash and cash equivalents disposed of	32(c)	111,535	–
Proceeds from sale of an associate		8,762	–
Proceeds from sale of available-for-sale investments		–	5,017
Dividend income from available-for-sale investments		–	6,860
Dividend income from financial assets at fair value through other comprehensive income		10,643	–
Dividends received from associates and joint ventures		19,554	–
Net increase in balances with associates and joint ventures		(84,585)	(57,502)
Interest received		64,532	46,462
Acquisition of subsidiaries	32(b)	(421,040)	(484,830)
Acquisition of associates and joint ventures		(4,735)	(96,797)
Increase in investments in an associate		(27,105)	–
Decrease/(increase) in restricted and pledged bank deposits		2,778	(3,997)
Net cash used in investing activities		(2,149,704)	(1,936,781)

	Note	2018	2017
		HK$'000	HK$'000
Financing activities			
Repayment of bank loans		(5,286,038)	(2,201,851)
Drawdown of bank loans		6,689,093	3,049,540
Dividends of subsidiaries paid to non-controlling interests		(371,697)	(189,025)
Capital injection from non-controlling interests		80,127	17,281
Reduction of capital to non-controlling interests		(18,434)	(6,854)
Drawdown of loans from non-controlling interests		34,411	3,652
Repayments of loans from non-controlling interests		(16,223)	(35,796)
Net cash consideration received from/(paid to) non-controlling interests without change of control	32(d)	570,268	(18,005)
Decrease in put options written on non-controlling interests	32(d)	(47,530)	(22,396)
Dividends paid		(594,744)	(339,165)
Proceeds from exercise of pre-/post-IPO share option scheme allotments		93,617	6,792
Net cash from financing activities		1,132,850	264,173
Increase/(decrease) in cash and cash equivalents		645,534	(7,662)
Effect of exchange rate changes		(51,281)	213,148
Cash and cash equivalents at beginning of the year		3,518,620	3,313,134
Cash and cash equivalents at end of the year	24(b)	4,112,873	3,518,620

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		Attributable to shareholders of the Company								
	Note	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Put options written on non-controlling interests HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2018		848,044	3,008,626	(215,263)	15,163,133	237,452	(1,218,331)	17,823,661	3,443,217	21,266,878
Profit for the year		–	–	–	2,439,775	–	–	2,439,775	431,847	2,871,622
Defined benefit pension plans										
– Actuarial losses		–	–	–	(6,706)	–	–	(6,706)	(6,308)	(13,014)
– Deferred taxation		–	–	–	1,112	–	–	1,112	1,127	2,239
Net translation differences on foreign operations	27	–	–	(420,181)	–	–	–	(420,181)	(118,652)	(538,833)
Fair value change on financial assets at fair value through other comprehensive income	27	–	–	11,173	–	–	–	11,173	11,117	22,290
Total comprehensive income for the year		–	–	(409,008)	2,434,181	–	–	2,025,173	319,131	2,344,304
Dividends of subsidiaries paid to non-controlling interests		–	–	–	–	–	–	–	(371,697)	(371,697)
2017 final dividend paid		–	–	–	(219)	(237,452)	–	(237,671)	–	(237,671)
2018 interim dividend paid		–	–	–	(153,032)	–	–	(153,032)	–	(153,032)
2018 special dividend paid		–	–	–	(204,041)	–	–	(204,041)	–	(204,041)
2018 proposed final dividend		–	–	–	(272,842)	272,842	–	–	–	–
Transfers	27	–	–	19,061	(19,061)	–	–	–	–	–
Acquisition of subsidiaries	33	–	–	–	–	–	–	–	146,045	146,045
Capital injection from non-controlling interests		–	–	–	–	–	–	–	80,127	80,127
Reduction of capital to non-controlling interest		–	–	–	–	–	–	–	(18,434)	(18,434)
Changes in ownership of interests in subsidiaries without change of control	32(d)	–	–	648,036	–	–	47,530	695,566	25,886	721,452
Exercise of pre-IPO share option scheme allotment	27	4,583	99,847	(10,936)	–	–	–	93,494	–	93,494
Exercise of post-IPO share option scheme allotment	27	5	137	(19)	–	–	–	123	–	123
Share option lapsed	27	–	–	(298)	298	–	–	–	–	–
Total transactions with owners		4,588	99,984	655,844	(648,897)	35,390	47,530	194,439	(138,073)	56,366
Balance at 31 December 2018		852,632	3,108,610	31,573	16,948,417	272,842	(1,170,801)	20,043,273	3,624,275	23,667,548

	Note	Attributable to shareholders of the Company								
		Share capital	Share premium	Other reserves	Retained profits	Proposed final dividend	Put options written on non-controlling interests	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2017		847,711	3,001,372	(988,540)	13,476,636	203,451	(1,240,727)	15,299,903	2,790,274	18,090,177
Profit for the year		–	–	–	2,115,897	–	–	2,115,897	383,565	2,499,462
Defined benefit pension plans										
– Actuarial losses		–	–	–	(4,921)	–	–	(4,921)	(4,971)	(9,892)
– Deferred taxation		–	–	–	837	–	–	837	845	1,682
Net translation differences on foreign operations	27	–	–	746,987	–	–	–	746,987	226,710	973,697
Fair value change on available-for-sale investments	27	–	–	(1,454)	–	–	–	(1,454)	(546)	(2,000)
Total comprehensive income for the year		–	–	745,533	2,111,813	–	–	2,857,346	605,603	3,462,949
Dividends paid		–	–	–	–	–	–	–	(189,025)	(189,025)
2016 final dividend paid		–	–	–	(26)	(203,451)	–	(203,477)	–	(203,477)
2017 interim dividend paid		–	–	–	(135,688)	–	–	(135,688)	–	(135,688)
2017 proposed final dividend		–	–	–	(237,452)	237,452	–	–	–	–
Transfers	27	–	–	52,733	(52,733)	–	–	–	–	–
Acquisition of subsidiaries		–	–	–	–	–	–	–	201,361	201,361
Capital injection from non-controlling interests		–	–	–	–	–	–	–	58,256	58,256
Reduction of capital to non-controlling interest		–	–	–	–	–	–	–	(6,854)	(6,854)
Changes in ownership of interests in subsidiaries without change of control		–	–	(24,003)	–	–	22,396	(1,607)	(16,398)	(18,005)
Exercise of pre-IPO share option scheme allotment	27	333	7,254	(795)	–	–	–	6,792	–	6,792
Share option lapsed	27	–	–	(191)	583	–	–	392	–	392
Total transactions with owners		333	7,254	27,744	(425,316)	34,001	22,396	(333,588)	47,340	(286,248)
Balance at 31 December 2017		848,044	3,008,626	(215,263)	15,163,133	237,452	(1,218,331)	17,823,661	3,443,217	21,266,878

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of logistics, freight and warehouse leasing and operations services. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

Kerry Group Limited, a private company incorporated in the Cook Islands, is the ultimate holding company.

The consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 28 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below. Except as described below, these policies have been consistently applied to all the years presented, unless otherwise stated.

(a) BASIS OF PREPARATION

The significant accounting policies applied in the preparation of the consolidated financial statements which are in accordance with HKFRS issued by HKICPA are set out below. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, investment properties and put options written on non-controlling interests, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) BASIS OF PREPARATION (CONTINUED)

(I) ADOPTION OF NEW STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS TO EXISTING STANDARDS

The following new standards, amendments, interpretations and improvements to existing standards have been published that are effective for the Group's accounting period beginning on 1 January 2018:

- HKFRS 9, 'Financial instruments'
- HKFRS 15, 'Revenue from contracts with customers'
- Amendments to HKAS 40, 'Transfer of investment property'
- Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions'
- Amendments to HKFRS 4, 'Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts'
- Amendments to HKFRS 15, 'Clarifications to HKFRS 15'
- HK(IFRIC)-Int 22, 'Foreign currency transactions and advance consideration'
- Annual improvements project, 'Annual improvements 2014-2016 cycle'

Except for HKFRS 9 and 15 described in Note 2(a)(II), the adoption of the above amendments to existing standards, interpretations and improvements had no material impact on the Group's results and financial position.

(II) CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 'Financial instruments' and HKFRS 15 'Revenue from contracts with customers' on the Group's financial statements.

(i) HKFRS 9 'FINANCIAL INSTRUMENTS'

HKFRS 9, 'Financial instruments' replaces the whole of HKAS 39 'Financial instruments: recognition and measurement'. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules of hedge accounting and provides a new impairment model for financial assets.

The adoption of HKFRS 9 'Financial instruments' from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in notes 2(i) and 2(k) below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

- *Classification and measurement*

  On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

  There were no changes to the carrying amount of the financial assets and liabilities through transition. For the investment in equity securities previously classified as available-for-sale financial assets, the Group elected to present its change in fair value in other comprehensive income ("FVOCI").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) BASIS OF PREPARATION (CONTINUED)

(II) CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) HKFRS 9 'FINANCIAL INSTRUMENTS' (CONTINUED)

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of HK$100,811,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and HK$11,573,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018 (refer note 27).

Investments in covertible bonds are classified as fair value through profit or loss ("FVPL") under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

- *Impairment of financial assets*
  The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

  (1) accounts receivable and deposits; and

  (2) amounts due from fellow subsidiaries, associates and joint ventures.

While cash and bank balances and restricted and pledged bank deposits are also subject to the impairment requirements of HKFRS 9, the expected credit loss is considered immaterial.

For accounts receivables, the Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Management performed a detailed assessment of expected credit losses on the date of initial application of HKFRS 9 and has concluded that there was no material impact on the Group's impairment allowance and its equity.

For amounts due from fellow subsidiaries, associates and joint ventures, the management considered that its credit risk has not increased significantly since initial recognition as each of the fellow subsidiaries, associates and joint ventures have a low risk of default and a strong capacity to meet contractual cash flows. The impairment provision is determined based on 12 months expected credit losses which are minimal.

(ii) HKFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

HKFRS 15 'Revenue from contracts with customers' replaces the previous revenue standards, including HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and the related interpretations on revenue recognition, and is effective from 1 January 2018.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service is transferred to a customer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) BASIS OF PREPARATION (CONTINUED)

(II) CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(ii) HKFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS' (CONTINUED)

The adoption of HKFRS 15 'Revenue from contracts with customers' from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in the note 2(u) below. The Group has also elected to apply the modified retrospective approach whereby the effects of adopting HKFRS 15 as at 1 January 2018 are adjusted at the opening balance of equity as at 1 January 2018 and prior period comparatives are not restated. Management has carried out assessment on the effects of applying the new standard on the Group's consolidated financial statements and has concluded that there is no significant impact on the Group's consolidated financial statement.

(III) NEW STANDARDS, AMENDMENTS AND IMPROVEMENTS TO EXISTING STANDARDS AND INTERPRETATIONS WHICH ARE NOT YET EFFECTIVE

The following new standards, amendments and improvements to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2019, but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
Annual improvements project, 'Annual improvements 2015-2017 cycle'	1 January 2019
Amendments to HKAS 19, 'Plan amendment, curtailment or settlement'	1 January 2019
Amendments to HKAS 28, 'Long-term interests in associates and joint ventures'	1 January 2019
Amendments to HKFRS 9, 'Prepayment features with negative compensation'	1 January 2019
HKFRS 16, 'Leases'	1 January 2019
HK (IFRIC) – Int 23, 'Uncertainty over income tax treatments'	1 January 2019
Amendments to HKAS 28 (2011) and HKFRS 10, 'Sales or contribution of assets between an investor and its associate or joint venture'	To be determined
Amendments to HKAS 1, 'Presentation of financial statements' and HKAS 8 'Accounting policies, changes in accounting estimates and errors'	1 January 2020
Amendments to HKFRS 3, 'Definition of a business'	1 January 2020
HKFRS 17, 'Insurance contract'	1 January 2021

The Group will adopt the above new standards, amendments and improvements to existing standards and interpretations as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) BASIS OF PREPARATION (CONTINUED)

(III) NEW STANDARDS, AMENDMENTS AND IMPROVEMENTS TO EXISTING STANDARDS AND INTERPRETATIONS WHICH ARE NOT YET EFFECTIVE (CONTINUED)

HKFRS 16, "LEASES"

HKFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for in the statements of financial position for lessees. The accounting for lessors will not significantly change. The Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, and provides that almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of twelve months or less and leases of low-value assets are exempted from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term and also the Group will classify cash prepayment on the lease liability into a principal portion and an interest portion and will present them in the consolidated statement of cash flows.

The Group is considering to elect the modified retrospective approach upon the initial adoption. Under the modified retrospective approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 January 2019; and (iii) the Group will recognise the cumulative effect of initially applying the guidance as an adjustment to the opening balance of the consolidated statement of financial position in the year of adoption, i.e. as at 1 January 2019.

Upon adoption of HKFRS 16, the Group will recognise a liability reflecting these future lease payments and right-of-use assets, unless the underlying asset is of low value or they are short-term leases, in its consolidated statement of financial position. As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$1,663,251,000. The Group measures the right-of-use asset on transactions by measuring the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application.

The Group's activities as a lessor does not expect any significant impact on the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) CONSOLIDATION

(I) SUBSIDIARIES

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) CONSOLIDATION (CONTINUED)

(II) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognised at fair value as a written put option liability with a corresponding charge directly to equity. A written put option liability is subsequently remeasured at fair value as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognised in the consolidated income statement. In the event that the option is expired or unexercised, the written put option liability is derecognised with a corresponding adjustment to equity.

(III) PARTIAL DISPOSAL

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) ASSOCIATES

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights or when significant influence is obtained by the Group through participation in the board of directors of the entity. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

The Group's share of its associates post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) ASSOCIATES (CONTINUED)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the impairment loss in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

(d) FOREIGN CURRENCY TRANSLATION

(I) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars (HK$), which are the Company's functional and the Group's presentation currency.

(II) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the other comprehensive income.

(III) GROUP COMPANIES

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position of the Group's entities are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement of the Group's entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) PROPERTY, PLANT AND EQUIPMENT

Construction in progress represents logistics centres and warehouses under construction and is stated at cost less impairment losses. It will be reclassified to the relevant property, plant and equipment category upon completion and depreciation begins when the relevant assets are available for use.

Properties comprise mainly warehouses and logistics centres (including leasehold land classified as finance lease), staff quarters, freehold land and buildings and port facilities. All property, plant and equipment are stated at historical cost less aggregate depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Leasehold land	Over their remaining lease term ranging from 20 to 50 years
Port facilities	2.5% to 3.6%
Properties	Shorter of remaining lease term of 20 to 50 years or useful lives
Leasehold improvements	5% to 33.33%
Warehouse operating equipment	5% to 25%
Motor vehicles, furniture, fixtures and office equipment	5% to 50%

No amortisation is provided for freehold land.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of all property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) INVESTMENT PROPERTIES

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases, warehouse and office held for long-term rental yields.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment property is measured initially at cost, including related transaction costs and borrowing costs.

After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out by professional valuer. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the consolidated income statement. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, except that the land portion is reclassified as leasehold land and land use right if it is operating lease in nature, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any increase from the carrying amount to the fair value of this item at the date of transfer is recognised in equity as a revaluation reserve of property, plant and equipment under HKAS 16, except any increase which reverses a previous impairment loss is recognised in the income statement. Any decrease in the carrying amount of the property is charged to the consolidated income statement. Upon the subsequent disposal of the investment property, any revaluation reserve balance of the property is transferred to retained profits and is shown as a movement in equity.

(g) INTANGIBLE ASSETS

(I) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised separately as a non-current asset. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill on acquisitions of subsidiaries is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment, and carried at cost less accumulated impairment losses. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately and as expense and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) INTANGIBLE ASSETS (CONTINUED)

(II) CUSTOMER RELATIONSHIPS

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate its cost over the expected life of the customer relationships, which range from five to ten years.

(III) NON-COMPETE AGREEMENTS

Non-compete agreements acquired in a business combination are recognised at fair value at the acquisition date. The non-compete agreements have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate its cost over the term of the agreements, which range from three to ten years.

(IV) TRADEMARKS

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of five to eight years.

(h) IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND NON-FINANCIAL ASSETS

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) FINANCIAL ASSETS

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces a new impairment model for financial assets.

(I) CLASSIFICATION

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets change.

(II) RECOGNITION AND DERECOGNITION

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(III) MEASUREMENT

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

DEBT INSTRUMENTS

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) FINANCIAL ASSETS (CONTINUED)

(III) MEASUREMENT (CONTINUED)

DEBT INSTRUMENTS (CONTINUED)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are recognised in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

  Investment in covertible bonds are required to be held as fair value through profit or loss under HKFRS 9.

EQUITY INSTRUMENTS

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(IV) IMPAIRMENT

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 2(k) for further details.

As permitted by a transition provision in HKFRS 9, provision for impairment of receivables account for these financial assets will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a 12 months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) INVENTORIES

Inventories of finished goods are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) ACCOUNTS RECEIVABLE

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within normal operating cycle and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See 2(i) for a description of the Group's impairment policies.

(l) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown as a separate current liability in the consolidated statement of financial position.

Restricted and pledged bank deposits are not included in cash and cash equivalents.

(m) ACCOUNTS PAYABLE

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) CURRENT AND DEFERRED INCOME TAX

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary difference arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

(p) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) FINANCIAL GUARANTEES

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its carrying amount of the net liability regarding the financial guarantee with its present legal or constructive obligation amount. If the carrying amount of the net liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated income statement immediately.

(r) LEASES

(I) THE GROUP IS THE LESSEE

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor), including upfront prepayment made for leasehold land and land use rights are charged to the consolidated income statement in accordance with the pattern of benefit provided or on a straight-line basis over the period of the lease term.

(II) THE GROUP IS THE LESSOR

When assets are leased out under an operating lease, the assets are included in the consolidated statement of financial position based on the nature of the assets. Lease income from operating lease is recognised over the term of the lease on a straight-line basis.

(s) LEASEHOLD LAND AND LAND USE RIGHTS

The Group made upfront payments to obtain operating leases of leasehold land and land use rights on which properties will be developed. Other than those classified as finance lease, the upfront payments of the leasehold land and land use rights are recorded as separate assets and amortised over the lease term in accordance with the pattern of benefit provided or on a straight-line basis over the lease term. The amortisation during the period of construction of the properties is capitalised as the cost of construction in progress. The amortisation during the period before the commencement and after the completion of the construction of the properties is expensed in the consolidated income statement.

(t) EMPLOYEE BENEFITS

(I) EMPLOYEE LEAVE ENTITLEMENTS

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(II) DEFINED CONTRIBUTION PLAN

A defined contribution plan is a pension plan which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) EMPLOYEE BENEFITS (CONTINUED)

(III) DEFINED BENEFIT PLAN

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. When there is significant change to the plan and key assumptions, the defined benefit obligation will be recalculated by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using government bonds yield that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income and immediately recognised in retained profits in the year in which they arise.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in income statements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

(IV) SHARE-BASED COMPENSATION

KPL operates an equity-settled, share-based compensation plan. Prior to the Global Offering, the fair value of the employee services received by the Group in exchange for the grant of the options is recharged by KPL and is recognised as an expense in the consolidated income statement of the Group.

Pursuant to the Global Offering, the Group has outstanding options granted under its pre-IPO share option schemes. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) EMPLOYEE BENEFITS (CONTINUED)

(V) TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(VI) BONUS PLANS

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

(u) REVENUE RECOGNITION

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) REVENUE RECOGNITION (CONTINUED)

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

LOGISTICS AND FREIGHT FORWARDING SERVICES

The Group provides logistics services, including freight forwarding services. Revenue from providing services is recognised in the accounting period in which the services are rendered.

Revenue is recognised over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

GENERAL STORAGE AND OTHER ANCILLARY SERVICES

The Group provides general storage and other ancillary services to customers. Revenue from leased storage is recognised when general storage and other ancillary services are rendered according to the terms of the respective contracts.

SALES OF GOODS

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract. No element of financing is deemed present as the sales are made with the credit policies, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(v) DIRECT OPERATING EXPENSES

Direct operating expenses mainly represent the freight and transportation costs and direct labour costs directly attributable to the business operations of the Group, and are charged to the income statement in the year in which they are incurred.

(w) BORROWING COSTS

Borrowing costs are accounted for on the accrual basis and charged to the consolidated income statement in the year in which they are incurred, except for costs related to funding of construction or acquisition of qualifying assets which are capitalised as part of the cost of that asset during the construction period and up to the date of completion of construction. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably estimated, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(y) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

(z) DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the year in which the dividends are declared by the Directors in the case of interim dividends or approved by the Company's shareholders in the case of final dividends.

3 FINANCIAL RISK MANAGEMENT

(a) FINANCIAL RISK FACTORS

The Group's major financial instruments include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, accounts and other receivables, cash and bank balances, restricted and pledged bank deposits, accounts payable, put options written on non-controlling interests, bank overdrafts, bank loans, balances with group companies and related companies, balances with associates and joint ventures and loans from non-controlling interests. Details of these financial instruments are disclosed in respective notes.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) FINANCIAL RISK FACTORS (CONTINUED)

Risk management is carried out by the Group's management under the supervision of the Board of Directors. The Group's management identifies, evaluates and manages significant financial risks in the Group's individual operating units. The Board of Directors provides guidance for overall risk management.

(I) MARKET RISK

(I) FOREIGN EXCHANGE RISK

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group entities' functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign exchange risk. At 31 December 2018, if major currencies such as Renminbi, Taiwan dollar and Euro, to which the Group had exposure had strengthened/weakened by 5% (2017: 5%) against HK dollar with all variables held constant, there would have insignificant impact on the Group's profit for the year and equity. Income in foreign currencies are generated from the Group's investments outside Hong Kong and cash in these foreign currencies are maintained in the relevant foreign currencies for operational needs. The Group ensures that its exposure to fluctuations in foreign exchange rates is minimised. Accordingly, no sensitivity analysis is performed as the impact would not be significant to the profit for the year. Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure by using appropriate financial instruments when the need arises.

(II) INTEREST RATE RISK

The Group is primarily exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings which carry prevailing market interest rates. The Group has not entered into any interest rate swap contracts to hedge the exposure as the Board of Directors consider the risk is not significant.

Interest rate sensitivity

For the year ended 31 December 2018, if interest rates had increased/decreased by 25 basis points and all other variables were held constant, the profit of the Group would have decreased/increased by approximately HK$21,059,000 (2017: HK$18,078,000) resulting from the change in interest income on bank deposits and borrowing costs of bank borrowings.

(II) CREDIT RISK

The carrying amounts of cash and bank balances, restricted and pledged bank deposits, accounts receivable and amounts due from associates, joint ventures and fellow subsidiaries and financial assets at fair value through profit or loss represent the Group's maximum exposure to credit risk in relation to financial assets.

- ***CREDIT RISK OF CASH AND BANK BALANCES, RESTRICTED AND PLEDGED BANK DEPOSITS***

  To manage this risk arising from cash and cash equivalents and restricted bank balances, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is minimal.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) FINANCIAL RISK FACTORS (CONTINUED)

(II) *CREDIT RISK (CONTINUED)*

- ***CREDIT RISK OF ACCOUNTS RECEIVABLES***

  For accounts receivable, there is no concentration of credit risk with respect to accounts receivable from third party customers as the Group has a large number of customers which are internationally dispersed. In order to minimise the credit risk, management of the Company has delegated a team in each business unit responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has closely monitored the credit qualities and the collectability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made. In this regard, the Directors of the Company consider that the expected credit risks of them are adequately covered.

  The Group provides for credit losses against accounts receivable to customers by geographical location and the lifetime expected credit loss rate ranged from 0.4%-3.3%.

- ***CREDIT RISK OF AMOUNTS DUE FROM ASSOCIATES AND JOINT VENTURES AND FELLOW SUBSIDIARIES***

  The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the reporting period. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

  (1) actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;

  (2) actual or expected significant changes in the operating results of the counterparty;

  (3) significant changes in the expected performance and behaviour of the counterparty, including changes in the payment status of the counterparty.

Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward looking macroeconomic data. In addition, the Group monitors the exposure to credit risk in respect of financial assistance provided to associates through exercising infludene over their financial and operating policy decisions and reviewing their financial positions on a regular basis. No significant changes to estimation techniques or assumptions were made during the reporting period.

Based on historical experiences, amounts due from associates, joint ventures and fellow subsidiaries were settled within 12 months after upon maturity hence the expected credit loss is minimal.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) FINANCIAL RISK FACTORS (CONTINUED)

(III) LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratio regarding to the liquidity structure of the overall assets, liabilities, loans and commitments of the Group.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The following tables detail the contractual maturity of the Group for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
At 31 December 2018						
Bank loans	5,179,867	2,316,959	2,360,417	121,693	9,978,936	9,506,466
Accounts payable, deposits received and accrued charges	6,795,738	–	–	–	6,795,738	6,795,738
Bank overdrafts	193,076	–	–	–	193,076	193,076
Loans from non-controlling interests	–	177,833	–	–	177,833	177,833
Amounts due to related companies	24,795	–	–	–	24,795	24,795
Other non-current liabilities	–	750,421	761,520	–	1,511,941	1,511,941
At 31 December 2017						
Bank loans	4,129,805	2,109,278	2,246,316	1,349	8,486,748	8,154,480
Accounts payable, deposits received and accrued charges	5,565,831	–	–	–	5,565,831	5,565,831
Bank overdrafts	51,006	–	–	–	51,006	51,006
Loans from non-controlling interests	–	166,826	–	–	166,826	166,826
Amounts due to fellow subsidiaries	451	–	–	–	451	451
Amounts due to related companies	34,375	–	–	–	34,375	34,375
Other non-current liabilities	–	448,436	890,553	25,454	1,364,443	1,364,443

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the loan and equity balance.

The Directors of the Company regularly monitor the capital structure, which consists of the equity attributable to the Company's shareholders as disclosed in the statement of financial position. The Directors of the Company could balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital by maintaining prudent gearing ratio based on prevailing market environment and economic condition. This ratio is calculated as total bank loans and overdrafts, divided by equity attributable to the Company's shareholders excluding put option written on non-controlling interests.

The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 HK$ million	2017 HK$ million
Bank loans and overdrafts	9,700	8,205
Equity attributable to the Company's shareholders excluding put option written on non-controlling interests	21,214	19,042
Gearing ratio	45.7%	43.1%

The Group's overall strategy remains unchanged throughout the year. The increase was mainly attributable to the increase in new bank loans raised for settlement of consideration in respect of the acquisition of subsidiaries.

(c) 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, as 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).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's financial investments that are measured at fair value as at 31 December 2018 and 2017:

At 31 December 2018	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Investment in convertible bonds	–	–	543,762	543,762
Financial assets at fair value through other comprehensive income	52,614	–	118,185	170,799
Financial assets at fair value through profit or loss	158,383	103,501	–	261,884
Total assets	210,997	103,501	661,947	976,445
Liability				
Put options written on non-controlling interests	–	–	1,171,600	1,171,600

At 31 December 2017	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Investment in convertible bonds	–	–	564,397	564,397
Available-for-sale investments	53,638	–	47,173	100,811
Financial assets at fair value through profit or loss	–	109,841	–	109,841
Total assets	53,638	109,841	611,570	775,049
Liability				
Put options written on non-controlling interests	–	–	1,218,242	1,218,242

There were no transfers between levels during the year (2017: nil).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) FAIR VALUE ESTIMATION (CONTINUED)

LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents the changes in level 3 instruments.

As at 31 December 2018	Financial assets at fair value through other comprehensive income HK$'000	Investment in convertible bonds HK$'000	Put options written on non-controlling interests HK$'000
At beginning of year	47,173	564,397	1,218,242
Fair value adjustment	21,848	(14,000)	-
Additions	50,539	-	-
Exchange adjustment	(1,375)	(6,635)	888
Settlement	-	-	(47,530)
At end of year	118,185	543,762	1,171,600

As at 31 December 2017	Available-for-sale investments HK$'000	Investment in convertible bonds HK$'000	Put options written on non-controlling interests HK$'000
At beginning of year	47,503	474,306	1,236,262
Fair value adjustment	-	65,000	-
Additions	-	5,873	-
Disposals	(5,017)	-	-
Exchange adjustment	4,687	19,218	4,376
Settlement	-	-	(22,396)
At end of year	47,173	564,397	1,218,242

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

There were no changes in valuation techniques during the year (2017: nil).

VALUATION PROCESSES OF THE GROUP

The Group's finance department includes a team that performs the valuation of financial assets required for financial reporting purposes, including level 2 and 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.

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

INVESTMENT IN CONVERTIBLE BONDS

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) FAIR VALUE ESTIMATION (CONTINUED)

PUT OPTIONS WRITTEN ON NON-CONTROLLING INTERESTS

The Group established fair value of written put option liabilities by using valuation techniques. These include the use of assumptions of estimated exercise price determined by the estimated performance of the newly acquired subsidiaries, estimated time to exercise, discount rate and volatility.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group established fair value of "financial assets at fair value through profit or loss" by using valuation techniques. These valuation techniques maximise the use of observable market data including quoted prices where available, and rely as little as possible on entity-specific estimates.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

The fair value of the following financial assets and liabilities approximate their carrying amount as at 31 December 2018 and 2017:

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(I) ESTIMATE OF FAIR VALUE OF INVESTMENT PROPERTIES

The valuation of investment properties is performed in accordance with "The HKIS Valuation Standards on Properties (2012 Edition)" published by the Hong Kong Institute of Surveyors and the "International Valuation Standards" published by the International Valuation Standards Committee. The valuation is performed by qualified valuer by adopting the investment approach of valuation by considering the capitalised rental income derived from the existing tenancies with due provision for any reversionary income potential of the property interests at appropriate capitalisation rates or wherever appropriate the direct comparison approach by making reference to comparable sales evidence as available in the relevant market subject to suitable adjustments between the subject properties and the comparable properties including but not limited to location, time, size, age and maintenance standard etc.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(I) ESTIMATE OF FAIR VALUE OF INVESTMENT PROPERTIES (CONTINUED)

For certain investment properties in Vietnam, due to the specific nature and restricted use of the buildings and structures, and absence of relevant market evidence, the qualified valuer has valued the property interests by reference to the Depreciated Replacement Cost ("DRC"). DRC is based on an estimate of the market value for the existing use of the land (which is by reference to relevant land sales comparables subject to appropriate adjustments including but not limited to location, time, size etc.), plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. The values are subject to service potential of the entity from the use of assets as a whole.

(II) INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(III) ESTIMATED IMPAIRMENT OF GOODWILL

The Group tests whether goodwill (note 13) has suffered any impairment, in accordance with the accounting policy stated in note 2(g)(I). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations or fair value less costs of disposal. These calculations require the use of estimates. The key assumptions and sensitivity test was disclosed in note 13.

(IV) USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(V) IMPAIRMENT OF NON-FINANCIAL ASSETS

Management regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset, including property, plant and equipment, leasehold land and land use rights, is lower than its recoverable amount which is the greater of its fair value less costs of disposal or its value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business.

(VI) IMPAIRMENT OF INTANGIBLE ASSETS WITH A DEFINITE USEFUL LIFE

Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Intangible assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(VII) IMPAIRMENT OF ASSOCIATES AND JOINT VENTURES

The Group determines whether an investment in associates and joint ventures is impaired by evaluating the duration and extent to which the recoverable amount of the investment is less than its carrying amount. This evaluation is subject to changes in factors, such as industry and sector performance and operational cash flows.

(VIII) RETIREMENT BENEFIT OBLIGATIONS

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the discount rate and future salary. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

The Group determines the appropriate discount rate at the end of each reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit liability.

(IX) IMPAIRMENT OF ACCOUNTS RECEIVABLE

The provision for impairment of accounts receivable are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in note 3(a)(II).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

(I) DISTINCTION BETWEEN INVESTMENT PROPERTIES AND OWNER-OCCUPIED PROPERTIES

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable to the property and other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement at the end of each reporting period.

(II) CONTROL OF KERRY TJ LOGISTICS COMPANY LIMITED ("KERRY TJ")

The Group has obtained de facto control over Kerry TJ since mid 2010 and the Group's effective interest in Kerry TJ as at 31 December 2018 (49.67%) is accounted for and consolidated into the consolidated financial statements of the Group as a subsidiary. Key judgements adopted in concluding the Group has obtained de facto control in Kerry TJ are as follows:

- The Group has consistently and regularly held a majority of the voting rights exercised at Kerry TJ's board of directors meetings by appointed four out of seven board seats since mid 2010.

- The shareholding of other non-controlling interests is dispersed, no other single shareholder directly or indirectly controls more than the Group and the chance of all other shareholders getting together to vote against the Group is remote.

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

(a) Turnover recognised during the year is as follows:

	2018 HK$'000	2017 HK$'000
Integrated Logistics		
Logistics Operations	16,526,529	13,124,054
Hong Kong Warehouse	340,661	488,159
International Freight Forwarding	21,271,338	17,175,441
	38,138,528	30,787,654

5 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 year ended 31 December 2018, together with comparative figures for the year ended 31 December 2017, is as follows:

	For the year ended 31 December									
	Integrated logistics									
	Logistics operations		Hong Kong warehouse		International freight forwarding		Elimination		Consolidation	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Turnover										
Turnover	16,526,529	13,124,054	340,661	488,159	21,271,338	17,175,441	–	–	38,138,528	30,787,654
Inter-segment turnover	434,620	294,988	431,667	425,170	4,194,555	2,206,120	(5,060,842)	(2,926,278)	–	–
	16,961,149	13,419,042	772,328	913,329	25,465,893	19,381,561	(5,060,842)	(2,926,278)	38,138,528	30,787,654
Turnover by geographical area:										
Hong Kong	4,108,434	3,136,667	772,328	913,329	1,881,532	946,844	(1,623,298)	(916,031)	5,138,996	4,080,809
Mainland China	4,332,923	4,164,049	–	–	7,700,826	5,967,354	(2,043,601)	(1,048,907)	9,990,148	9,082,496
Taiwan	2,700,353	2,493,385	–	–	446,655	221,287	(173,463)	(21,070)	2,973,545	2,693,602
Asia	5,676,211	3,470,621	–	–	4,521,047	3,553,369	(647,011)	(551,597)	9,550,247	6,472,393
Americas	–	–	–	–	6,736,931	5,477,685	(430,109)	(249,122)	6,306,822	5,228,563
Europe	–	–	–	–	3,700,065	2,865,795	(116,192)	(116,748)	3,583,873	2,749,047
Others	143,228	154,320	–	–	478,837	349,227	(27,168)	(22,803)	594,897	480,744
	16,961,149	13,419,042	772,328	913,329	25,465,893	19,381,561	(5,060,842)	(2,926,278)	38,138,528	30,787,654
Segment profit by geographical area:										
Hong Kong	316,253	230,152	559,545	545,420	47,559	26,762	–	–	923,357	802,334
Mainland China	216,366	245,085	–	–	167,886	187,107	–	–	384,252	432,192
Taiwan	404,515	388,140	–	–	21,677	4,779	–	–	426,192	392,919
Asia	584,085	425,352	–	–	104,172	75,498	–	–	688,257	500,850
Americas	–	–	–	–	177,265	174,099	–	–	177,265	174,099
Europe	–	–	–	–	13,488	23,540	–	–	13,488	23,540
Others	29,701	11,806	–	–	17,217	19,454	–	–	46,918	31,260
	1,550,920	1,300,535	559,545	545,420	549,264	511,239	–	–	2,659,729	2,357,194
Less: Unallocated administrative expenses									(295,404)	(229,216)
Core operating profit									2,364,325	2,127,978
Finance income									43,436	19,243
Finance costs									(224,245)	(159,825)
Share of results of associates and joint ventures									110,734	64,784
Profit before taxation*									2,294,250	2,052,180
Taxation*									(527,601)	(485,017)
Profit for the year*									1,766,649	1,567,163
Non-controlling interests*									(440,319)	(384,100)
Core net profit									1,326,330	1,183,063
Change in fair value of investment properties									1,097,933	901,632
Deferred tax on change in fair value of investment properties									21,040	15,667
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									8,472	535
Fair value change of financial instruments									(14,000)	65,000
Goodwill impairment									–	(50,000)
Profit attributable to the Company's shareholders									2,439,775	2,115,897
Depreciation and amortisation	544,763	425,252	54,477	53,365	179,996	161,272			779,236	639,889

* Excluding the change in fair value of investment properties and its related deferred tax, fair value change of financial instruments and goodwill impairment

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

(c) Disaggregation of revenue

In the following table, revenue of the Group from contracts with customers is disaggregated by timing of satisfaction of performance obligations. The table also includes a reconciliation to the segment information in respect of revenue of the Group that is disclosed in the operating segment note.

By operating segment	2018 Revenue recognised at a point in time HK$'000	2018 Revenue recognised over time HK$'000	2018 Rental income HK$'000	2018 Total HK$'000	2017 Revenue recognised at a point in time HK$'000	2017 Revenue recognised over time HK$'000	2017 Rental income HK$'000	2017 Total HK$'000
Revenue from contracts with customers								
Integrated logistics								
– Logistics operations	1,646,045	14,760,756	119,728	16,526,529	1,402,368	11,607,962	113,724	13,124,054
– Hong Kong warehouse	–	29,339	311,322	340,661	–	129,510	358,649	488,159
International freight forwarding	–	21,271,338	–	21,271,338	–	17,175,441	–	17,175,441
	1,646,045	36,061,433	431,050	38,138,528	1,402,368	28,912,913	472,373	30,787,654

By geographical area	2018 Revenue recognised at a point in time HK$'000	2018 Revenue recognised over time HK$'000	2018 Rental income HK$'000	2018 Total HK$'000	2017 Revenue recognised at a point in time HK$'000	2017 Revenue recognised over time HK$'000	2017 Rental income HK$'000	2017 Total HK$'000
Revenue from contracts with customers								
Hong Kong	1,644,375	3,183,299	311,322	5,138,996	1,387,679	2,334,481	358,649	4,080,809
Mainland China	1,670	9,900,701	87,777	9,990,148	14,689	8,985,991	81,816	9,082,496
Taiwan	–	2,973,545	–	2,973,545	–	2,693,602	–	2,693,602
Asia	–	9,518,296	31,951	9,550,247	–	6,440,485	31,908	6,472,393
Americas	–	6,306,822	–	6,306,822	–	5,228,563	–	5,228,563
Europe	–	3,583,873	–	3,583,873	–	2,749,047	–	2,749,047
Others	–	594,897	–	594,897	–	480,744	–	480,744
	1,646,045	36,061,433	431,050	38,138,528	1,402,368	28,912,913	472,373	30,787,654

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

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

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

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

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

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

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

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

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

	Segment non-current assets #	
	2018 HK$'000	2017 HK$'000
Hong Kong	11,083,800	9,883,612
Mainland China	4,904,953	4,730,844
Taiwan	3,464,146	3,286,008
Asia	6,380,010	5,610,408
Americas	960,427	986,335
Europe	769,337	609,388
Others	136,990	128,586
	27,699,663	25,235,181

Other than financial assets at fair value through other comprehensive income, available-for-sale investments, investment in convertible bonds and deferred taxation.

(e) Unsatisfied performance obligations
For general storage and other ancillary services, the Group has elected the practical expedient for not to disclose the remaining performance obligations for these type of contracts. The majority of the general storage and ancillary contracts do not have a fixed term. The Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date.

For logistics and freight forwarding services, they are rendered in short period of time and within a year and the Group has elected the practical expedient for not to disclose the remaining performance obligations at the end of respective periods.

(f) Assets recognised from incremental costs to obtain a contract
There was no significant incremental costs to obtain a contract for the year ended 31 December 2018.

6 OTHER INCOME AND NET GAINS

	2018 HK$'000	2017 HK$'000
Interest income from banks	37,761	17,454
Interest income from associates	5,675	1,789
Interest income from convertible bonds	21,096	27,219
Dividend income from available-for-sale investments	–	6,860
Dividend income from financial assets at fair value through other comprehensive income	10,643	–
Gain on disposal of property, plant and equipment	38,729	60,015
Gain on disposal of an investment property	–	35,304
Loss on disposal of an associate	(424)	–
Gain on disposal of subsidiaries	84,086	–
Fair value change of financial assets at fair value through profit or loss	(21,104)	61,370
Goodwill impairment	–	(50,000)
	176,462	160,011

7 EXPENSES BY NATURE

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

	2018 HK$'000	2017 HK$'000
Auditors' remuneration	24,545	21,887
Business tax and other taxes	13,543	15,265
Cost of goods sold	1,515,436	1,398,657
Freight and transportation costs	26,700,541	21,088,950
Depreciation of property, plant and equipment (note 16)	662,315	541,294
Amortisation of leasehold land and land use rights (note 15)	10,262	8,722
Amortisation of intangible assets (note 13)	106,659	89,873
Provision for impairment of receivables	64,678	25,275
Reversal of provision for impairment of receivables	(1,963)	(4,040)
Operating leases charges on land and buildings	788,416	659,589
Employee benefit expenses (note 12)	5,197,302	4,274,793

8 FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest expenses on bank loans and overdrafts	224,245	159,825

9 TAXATION

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017:16.5%) for the year ended 31 December 2018 on the estimated assessable profit for the year. Income tax on the overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing 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% (2017: 25%) on the estimated assessable profit for the year.

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 year at the rates of taxation prevailing in the PRC and overseas countries.

	2018 HK$'000	2017 HK$'000
Hong Kong profits tax		
– Current	134,321	96,328
– Overprovision in prior years	(614)	(4,356)
– Deferred	(835)	14,844
	132,872	106,816
PRC taxation		
– Current	89,836	114,462
– Overprovision in prior years	(589)	(211)
– Deferred	(13,974)	(3,560)
	75,273	110,691
Overseas taxation		
– Current	300,673	258,719
– (Over)/underprovision in prior years	(18,635)	6,479
– Deferred	16,378	(13,355)
	298,416	251,843
	506,561	469,350

The Group's share of associates' and joint ventures' taxation for the year ended 31 December 2018 is HK$18,869,000 (2017: HK$15,149,000) and included in the share of results of associates and joint ventures in the consolidated income statement.

9 TAXATION (CONTINUED)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2018 HK$'000	2017 HK$'000
Profit before taxation	3,378,183	2,968,812
Less: Share of results of associates and joint ventures	(110,734)	(64,784)
	3,267,449	2,904,028
Calculated at Hong Kong profits tax rate of 16.5% (2017: 16.5%)	539,129	479,165
Tax effect of different taxation rates in other countries	80,665	76,077
Income not subject to taxation	(194,906)	(162,981)
Expenses not deductible in determining taxable profit	69,932	56,069
Tax losses not recognised	23,189	17,183
Utilisation of previously unrecognised tax losses	(1,956)	(2,418)
(Over)/underprovision in prior years	(19,838)	1,912
Withholding tax on undistributed profits	10,346	4,343
Taxation charge	506,561	469,350

10 DIVIDENDS

A final dividend in respect of the year ended 31 December 2018 of 16 HK cents per share, amounting to a total dividend of HK$272,842,000 is to be proposed at the annual general meeting on 31 May 2019. These financial statements do not reflect this dividend payable.

	2018 HK$'000	2017 HK$'000
Interim dividend paid of 9 HK cents (2017: 8 HK cents) per ordinary share	153,032	135,688
Special dividend paid of 12 HK cents (2017: Nil) per ordinary share	204,041	–
Proposed final dividend of 16 HK cents (2017: 14 HK cents) per ordinary share	272,842	237,452
	629,915	373,140

The proposed final dividend for the year ended 31 December 2018, as referred to above, is calculated on the basis of 1,705,263,112 ordinary shares in issue as at 31 December 2018, and at a final dividend of 16 HK cents per ordinary share. The actual amount of final dividend payable in respect of the year ended 31 December 2018 will be subject to the actual number of ordinary shares in issue on the record date, which is expected to be on or about 6 June 2019.

11 EARNINGS PER SHARE

BASIC

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

	2018	2017
Adjusted weighted average number of ordinary shares in issue	1,698,719,179	1,695,782,834
Profit attributable to the Company's shareholders (HK$'000)	2,439,775	2,115,897
Basic earnings per share (HK$)	1.44	1.25

DILUTED

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

	2018	2017
Adjusted weighted average number of ordinary shares in issue	1,698,719,179	1,695,782,834
Adjustment for share options	3,812,012	1,970,800
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,702,531,191	1,697,753,634
Profit attributable to the Company's shareholders (HK$'000)	2,439,775	2,115,897
Diluted earnings per share (HK$)	1.43	1.25

12 EMPLOYEE BENEFIT EXPENSES

	2018 HK$'000	2017 HK$'000
Staff costs, including directors' emoluments	4,893,944	4,009,059
Pension costs		
– defined contribution plans	298,245	259,222
– defined benefit plans (note 31(b))	5,113	6,512
	5,197,302	4,274,793

Out of the total employee benefit expenses for the year ended 31 December 2018 of HK$5,197,302,000 (2017: HK$4,274,793,000), HK$3,488,899,000 (2017: HK$2,821,729,000) was included in direct operating expenses.

12 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) DIRECTORS' EMOLUMENTS

The remuneration of the Directors for the year ended 31 December 2018, excluding share option benefits, is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses (i) HK$'000	Housing allowance HK$'000	Estimating money value of other benefits HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
YEO George Yong-boon	–	4,200	6,000	3,000	–	18	13,218
MA Wing Kai William	–	5,640	17,107	–	–	120	22,867
ERNI Edwardo (resigned on 1 January 2019)	–	4,260	2,000	612	–	120	6,992
KUOK Khoon Hua	1,200	–	–	–	–	–	1,200
CHIN Siu Wa Alfred	450	–	–	–	–	–	450
WONG Yu Pok Marina	560	–	–	–	–	–	560
WAN Kam To	527	–	–	–	–	–	527
YEO Philip Liat Kok	360	–	–	–	–	–	360
KHOO Shulamite N K	458	–	–	–	–	–	458
ZHANG Yi Kevin	515	–	–	–	–	–	515

The remuneration of the Directors for the year ended 31 December 2017, excluding share option benefits, is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses (i) HK$'000	Housing allowance HK$'000	Estimating money value of other benefits HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
YEO George Yong-boon	–	4,200	5,000	3,000	–	18	12,218
MA Wing Kai William	–	5,460	17,262	–	–	120	22,842
ERNI Edwardo	–	3,805	4,728	680	–	120	9,333
KUOK Khoon Hua	1,200	–	–	–	–	–	1,200
CHIN Siu Wa Alfred	440	–	–	–	–	–	440
WONG Yu Pok Marina	560	–	–	–	–	–	560
WAN Kam To	530	–	–	–	–	–	530
YEO Philip Liat Kok	390	–	–	–	–	–	390
KHOO Shulamite N K	199	–	–	–	–	–	199
ZHANG Yi Kevin	244	–	–	–	–	–	244

Note:

(i) Discretionary bonuses are determined based on the overall performance of the individual and the Group.

12 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) SENIOR MANAGEMENT'S EMOLUMENTS

The Group considers a team of twelve (2017: eleven) senior executives who report to the Board of Directors as senior management. No emolument was paid to one (2017: one) of the senior management during the year. The emoluments of the remaining eleven (2017: ten) individuals, excluding share option benefits, are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other short-term benefits	50,521	43,684

(c) SHARE OPTIONS GRANTED BY KPL TO THE DIRECTORS OF THE COMPANY

Certain directors of the Company held share options of KPL during the year presented as follows:

During the year ended 31 December 2018, 1,390,000 KPL shares were issued to directors of the Company pursuant to exercise of the share options (2017: 1,500,000 shares).

As at 31 December 2018, certain directors held the following share options to acquire shares of KPL:

No. of share options held	Exercise price	Exercise period
250,000	HK$35.45	31/10/2012 – 29/04/2022
290,000	HK$35.45	31/10/2013 – 29/04/2022

As at 31 December 2017, certain directors held the following share options to acquire shares of KPL:

No. of share options held	Exercise price	Exercise period
525,000	HK$47.70	02/04/2009 – 01/04/2018
525,000	HK$47.70	02/04/2010 – 01/04/2018
1,050,000	HK$47.70	02/04/2011 – 01/04/2018
965,000	HK$35.45	31/10/2012 – 29/04/2022
965,000	HK$35.45	31/10/2013 – 29/04/2022

The closing market price of the KPL shares as at 31 December 2018 was HK$26.75 (2017: HK$35.15).

(d) SHARE OPTIONS GRANTED BY THE COMPANY TO THE DIRECTORS OF THE COMPANY

Certain directors of the Company held pre-IPO share options of the Company and post-IPO share options of the Company during the year presented as follows:

During the year ended 31 December 2018, 100,000 Shares were issued to a director of the Company pursuant to exercise of the share options (2017: nil).

As at 31 December 2018, certain directors held the following share options to acquire shares of the Company:

No. of share options held	Exercise price	Exercise period
Pre-IPO share options		
4,200,000	HK$10.20	19/12/2013 – 01/12/2023
4,300,000	HK$10.20	02/12/2014 – 01/12/2023
Post-IPO share options		
1,350,000	HK$12.26	09/01/2015 – 08/01/2020
1,350,000	HK$12.26	09/01/2016 – 08/01/2020

12 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(d) SHARE OPTIONS GRANTED BY THE COMPANY TO THE DIRECTORS OF THE COMPANY (CONTINUED)

As at 31 December 2017, certain directors held the following share options to acquire shares of the Company:

No. of share options held	Exercise price	Exercise period
Pre-IPO share options		
4,300,000	HK$10.20	19/12/2013 – 01/12/2023
4,300,000	HK$10.20	02/12/2014 – 01/12/2023
Post-IPO share options		
1,350,000	HK$12.26	09/01/2015 – 08/01/2020
1,350,000	HK$12.26	09/01/2016 – 08/01/2020

The closing market price of the Company's shares as at 31 December 2018 was HK$11.62 (2017: HK$11.08).

(e) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 included three Directors (2017: three). The emoluments payable to the remaining two highest paid individuals during the years are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	8,636	7,812
Discretionary bonuses	7,689	7,857
Pension contributions	120	120
	16,445	15,789

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
HK$7,000,001 – HK$7,500,000	–	1
HK$7,500,001 – HK$8,000,000	–	–
HK$8,000,001 – HK$8,500,000	1	1
HK$8,500,001 – HK$9,000,000	1	–
	2	2

(f) REMUNERATION PAYABLE TO SENIOR MANAGEMENT

The remuneration payable to the senior management during the year fell within the following bands:

	Number of individuals	
	2018	2017
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	–	–
HK$2,500,001 – HK$3,000,000	3	3
HK$3,000,001 – HK$3,500,000	1	1
HK$3,500,001 – HK$4,000,000	2	2
HK$4,000,001 – HK$4,500,000	2	1
HK$4,500,001 – HK$5,000,000	–	1
HK$5,000,001 – HK$5,500,000	–	–
HK$5,500,001 – HK$6,000,000	–	–
HK$6,000,001 – HK$6,500,000	1	–
HK$6,500,001 – HK$7,000,000	–	–
HK$7,000,001 – HK$7,500,000	–	1
HK$7,500,001 – HK$8,000,000	1	–
HK$8,000,001 – HK$8,500,000	–	1
HK$8,500,001 – HK$9,000,000	1	–
	11	10

13 INTANGIBLE ASSETS

	Group				
	Goodwill HK$'000	Customer relationships HK$'000	Non-compete agreements HK$'000	Trademarks HK$'000	Total HK$'000
At 1 January 2017	2,740,760	405,851	41,443	36,545	3,224,599
Acquisition of subsidiaries	407,896	163,243	17,417	32,273	620,829
Amortisation and impairment (note 6 and 7)	(50,000)	(66,628)	(9,996)	(13,249)	(139,873)
Exchange adjustment	152,128	22,133	1,805	2,861	178,927
At 31 December 2017	3,250,784	524,599	50,669	58,430	3,884,482
At 31 December 2017					
Cost	3,397,393	734,479	96,279	91,359	4,319,510
Accumulated amortisation and impairment	(146,609)	(209,880)	(45,610)	(32,929)	(435,028)
	3,250,784	524,599	50,669	58,430	3,884,482
At 1 January 2018	3,250,784	524,599	50,669	58,430	3,884,482
Acquisition of subsidiaries (note 33)	328,187	204,362	19,843	–	552,392
Amortisation (note 7)	–	(79,486)	(13,356)	(13,817)	(106,659)
Exchange adjustment	(72,403)	(5,829)	(613)	(493)	(79,338)
At 31 December 2018	3,506,568	643,646	56,543	44,120	4,250,877
At 31 December 2018					
Cost	3,627,179	926,254	113,756	89,981	4,757,170
Accumulated amortisation and impairment	(120,611)	(282,608)	(57,213)	(45,861)	(506,293)
	3,506,568	643,646	56,543	44,120	4,250,877

The amortisation of intangible assets was charged to direct operating expenses.

13 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTS FOR GOODWILL

Goodwill is allocated to the Group's cash-generating units (CGUs) that are expected to benefit from business combination and impairment testing is performed annually on goodwill allocated to their operating segments and CGUs.

A segment-level summary of the goodwill allocation based on geographical regions is presented below:

	2018 HK$'000	2017 HK$'000
Logistics operations		
Hong Kong	102,632	61,583
PRC	197,126	200,372
Taiwan	345,335	355,039
Asia	143,572	144,662
Others	9,798	10,817
	798,463	772,473
International freight forwarding		
Hong Kong	84,533	84,533
PRC	487,865	410,100
Taiwan	77,076	52,770
Asia	758,116	753,920
Europe	506,191	400,569
Americas	756,588	757,498
Others	37,736	18,921
	2,708,105	2,478,311
	3,506,568	3,250,784

The recoverable amount of a CGU is determined based on higher of its fair value less costs of disposal and value-in-use calculations. The recoverable amounts of all CGUs were determined based on value-in-use calculation except for Taiwan which was determined based on fair value less costs of disposal with reference to the market share price of the subsidiary which is listed in Taiwan. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-to-ten-year period. The financial budgets of five-to-ten-year period reflect the medium term plan of management in expanding the customer base and market share. Cash flows beyond the five-to-ten-year period are extrapolated using the estimated growth rates stated below:

KEY ASSUMPTIONS USED FOR VALUE-IN-USE CALCULATIONS

For the year ended 31 December 2018

LOGISTICS OPERATIONS

	Hong Kong	PRC	Asia
Gross margin	5%-12%	3%-5%	1%-31%
Growth rate	3%	3%	2%-5%
Discount rate	12%	12%	11%-18%

13 INTANGIBLE ASSETS (CONTINUED)

KEY ASSUMPTIONS USED FOR VALUE-IN-USE CALCULATIONS (CONTINUED)

For the year ended 31 December 2018

INTERNATIONAL FREIGHT FORWARDING

	Hong Kong	PRC	Asia	Europe	Americas
Gross margin	5%	1%-3%	1%-8%	3%-4%	4%-6%
Growth rate	3%	3%	2%-5%	2%	2%-5%
Discount rate	12%	12%	11%-16%	10%	10%-13%

For the year ended 31 December 2017

LOGISTICS OPERATIONS

	Hong Kong	PRC	Asia
Gross margin	5% – 12%	3% – 4%	1% – 31%
Growth rate	3%	3%	2% – 5%
Discount rate	12%	12%	11% – 18%

INTERNATIONAL FREIGHT FORWARDING

	Hong Kong	PRC	Asia	Europe	Americas
Gross margin	5%	1%-5%	2% – 8%	3% – 5%	1% – 4%
Growth rate	2%	3%	2% – 3%	2%	2% – 5%
Discount rate	12%	12%	11% – 13%	10%	10% – 13%

Management determined budgeted gross margin and growth rates based on past performance and its expectations of the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. Assuming growth rate decreased by 50 basis points and discount rate increased by 50 basis points, impairment charge of HK$26,115,000 (2017: HK$21,370,000) would be required for the goodwill in Asia at 31 December 2018.

14 INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At beginning of year	9,892,482	8,836,851
Additions	75,460	–
Change in fair value	1,097,933	901,632
Disposals	–	(43,193)
Transfer from leasehold land and land use rights and property, plant and equipment	20,097	109,449
Exchange adjustment	(46,952)	87,743
At end of year	11,039,020	9,892,482

(a) Investment properties were valued by independent professional valuer, namely Cushman & Wakefield Limited as at 31 December 2018 and 31 December 2017, by mainly adopting the investment approach of valuation.

(b) The Group's investment properties at their net book values are analysed as follows:

	2018 HK$'000	2017 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	9,686,800	8,510,920
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	1,352,220	1,381,562
	11,039,020	9,892,482

As at 31 December 2018, investment properties amounting to HK$515,417,000 (2017: HK$560,312,000) were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35).

(c) As at 31 December2018, rental income of HK$431,050,000 and direct operating expenses from property that generated rental income of HK$156,215,000 are recognised in profit and loss for investment properties.

14 INVESTMENT PROPERTIES (CONTINUED)

(d) Valuation of investment properties

FAIR VALUE MEASUREMENT USING SIGNIFICANT INPUTS

	Hong Kong HK$'000	PRC HK$'000	Overseas HK$'000	Total HK$'000
At 1 January 2018	8,510,920	883,173	498,389	9,892,482
Change in fair value	1,175,880	(74,328)	(3,619)	1,097,933
Additions	–	75,460	–	75,460
Transfer	–	20,097	–	20,097
Exchange adjustment	–	(42,954)	(3,998)	(46,952)
At 31 December 2018	9,686,800	861,448	490,772	11,039,020

The Group measures its investment properties at fair value. The investment properties were revalued by Cushman & Wakefield Limited, an independent qualified valuer not connected with the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued at 31 December 2018. For all investment properties, their current use equates to the highest and best use.

The Group's finance department includes a team that review the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management and the Audit and Compliance Committee. 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 year end, the finance department:

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

14 INVESTMENT PROPERTIES (CONTINUED)

(d) Valuation of investment properties (CONTINUED)

VALUATION TECHNIQUES

Fair value of investment properties in Hong Kong, PRC and overseas are generally derived using the investment approach and wherever appropriate, by direct comparison approach. Investment approach 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 approach is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. Fair value of certain investment properties in Vietnam are generally derived using the DRC approach.

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, PRC and overseas investment properties, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

The capitalisation rates used are as follows:

	2018 HK$'000	2017 HK$'000
Capitalisation rate	5.5% – 8.8%	6.1% – 9.1%

The following tables show the (decrease)/increase of the fair value of the investment properties if the capitalisation rate was to increase or decrease by 10%.

	2018 HK$'000	2017 HK$'000
Decrease of capitalisation rate by 10%	1,052,100	929,200
Increase of capitalisation rate by 10%	(844,000)	(751,200)

The following tables show the increase/(decrease) of the fair value of the investment properties if the reversionary income was to increase or decrease by 10%.

	2018 HK$'000	2017 HK$'000
Decrease of reversionary income by 10%	(861,400)	(756,800)
Increase of reversionary income by 10%	955,400	841,900

14 INVESTMENT PROPERTIES (CONTINUED)

(e) Leasing arrangements:

The Group leases various offices and warehouses to tenants under non-cancellable operating lease agreements with rentals receivable monthly. The lease terms are mainly between 1 year and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rates. No contingent rents were recognised during the year (2017: nil).

Minimum lease payments receivable on leases of investment properties are as follows:

	2018 HK$'000	2017 HK$'000
Land and buildings:		
Within one year	304,447	411,504
In the second to fifth year, inclusive	506,070	243,633
Over five years	181,353	148,984
	991,870	804,121

15 LEASEHOLD LAND AND LAND USE RIGHTS

	2018 HK$'000	2017 HK$'000
At beginning of year	625,550	560,983
Additions	16,313	54,535
Amortisation	(10,262)	(8,722)
Transfer	–	(24,660)
Disposal of subsidiaries	(10,561)	–
Exchange adjustment	(30,590)	43,414
At end of year	590,450	625,550

As at 31 December 2018, leasehold land and land use rights amounting to HK$90,344,000 (2017: HK$98,614,000) were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35).

16 PROPERTY, PLANT AND EQUIPMENT

	Warehouse and logistics centres HK$'000	Staff quarters HK$'000	Freehold land and buildings HK$'000	Port facilities HK$'000	Leasehold improvements HK$'000	Warehouse operating equipment HK$'000	Motor vehicles, furniture, fixtures and office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost									
At 1 January 2018	2,419,145	4,573	4,025,512	524,751	843,454	2,937,009	1,072,394	426,960	12,253,798
Additions, at cost	6,214	–	34,829	–	115,614	416,299	446,662	869,457	1,889,075
Acquisition of subsidiaries (note 33)	–	–	–	–	480	19,939	7,530	–	27,949
Disposals	(1,604)	(3,476)	(5,257)	–	(39,571)	(120,470)	(90,840)	–	(261,218)
Disposal of subsidiaries	(51,767)	–	–	–	–	(309)	(1,397)	–	(53,473)
Transfer/ reclassification	(12,086)	–	143,048	297,489	(96)	21,737	520	(470,709)	(20,097)
Exchange adjustment	(84,491)	(198)	(80,643)	4,810	(24,148)	(64,580)	(42,890)	850	(291,290)
At 31 December 2018	2,275,411	899	4,117,489	827,050	895,733	3,209,625	1,391,979	826,558	13,544,744
Accumulated depreciation									
At 1 January 2018	392,969	2,109	376,184	142,422	437,665	907,135	572,133	–	2,830,617
Charge for the year	62,119	88	57,926	10,353	86,155	275,959	169,715	–	662,315
Disposals	(627)	(1,950)	(1,676)	–	(24,879)	(87,067)	(57,864)	–	(174,063)
Disposal of subsidiaries	(9,665)	–	–	–	–	(130)	(1,261)	–	(11,056)
Transfer/ reclassification	3,380	–	(3,380)	–	(104)	1,076	(972)	–	–
Exchange adjustment	(11,650)	(115)	(9,328)	1,275	(18,095)	(40,524)	(31,680)	–	(110,117)
At 31 December 2018	436,526	132	419,726	154,050	480,742	1,056,449	650,071	–	3,197,696
Net book value									
As at 31 December 2018	1,838,885	767	3,697,763	673,000	414,991	2,153,176	741,908	826,558	10,347,048

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Warehouse and logistics centres HK$'000	Staff quarters HK$'000	Freehold land and buildings HK$'000	Port facilities HK$'000	Leasehold improvements HK$'000	Warehouse operating equipment HK$'000	Motor vehicles, furniture, fixtures and office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost									
At 1 January 2017	2,024,229	4,437	3,391,053	359,144	660,119	1,990,749	824,791	797,247	10,051,769
Additions, at cost	47,645	–	204,194	–	129,259	425,399	231,855	496,881	1,535,233
Acquisition of subsidiaries	143	–	8,149	–	2,587	87,582	8,780	–	107,241
Disposals	(28,453)	(385)	(57,429)	–	(5,596)	(95,840)	(68,244)	–	(255,947)
Transfer/ reclassification	261,621	–	153,276	126,440	(2,146)	309,964	792	(934,891)	(84,944)
Exchange adjustment	113,960	521	326,269	39,167	59,231	219,155	74,420	67,723	900,446
At 31 December 2017	2,419,145	4,573	4,025,512	524,751	843,454	2,937,009	1,072,394	426,960	12,253,798
Accumulated depreciation									
At 1 January 2017	335,727	1,972	301,141	121,829	327,675	642,634	451,839	–	2,182,817
Charge for the year	56,394	134	52,472	7,041	73,674	217,979	133,600	–	541,294
Disposals	(15,754)	(289)	(10,625)	–	(3,799)	(81,375)	(60,281)	–	(172,123)
Transfer/ reclassification	(934)	–	(29)	–	(833)	3,819	(2,178)	–	(155)
Exchange adjustment	17,536	292	33,225	13,552	40,948	124,078	49,153	–	278,784
At 31 December 2017	392,969	2,109	376,184	142,422	437,665	907,135	572,133	–	2,830,617
Net book value									
As at 31 December 2017	2,026,176	2,464	3,649,328	382,329	405,789	2,029,874	500,261	426,960	9,423,181

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) As at 31 December 2018 and 2017, certain freehold land and buildings, warehouse and logistics centres and port facilities were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35) with aggregate net book values as follows:

	2018 HK$'000	2017 HK$'000
Freehold land and buildings	1,495,055	1,464,246
Warehouse and logistics centres	78,844	85,523
Port facilities	673,000	382,329
	2,246,899	1,932,098

(b) The Group's freehold land and buildings and port facilities are located outside Hong Kong.

17 ASSOCIATES AND JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Share of net assets (note (b))	1,280,978	1,140,426
Amounts due from associates and joint ventures (note (c), (d))	191,290	269,060
	1,472,268	1,409,486

(a) The Group held interests in the following principal associates and joint ventures:

	Name	Place of incorporation/ establishment	Principal activities	Class of shares/ registered capital	Interest held indirectly 2018	Interest held indirectly 2017
(3)(4)	Asia Airfreight Terminal Company Limited	Hong Kong	Air cargo terminal	Ordinary	15%	15%
(1)(2)	Beijing Bei Jian Tong Cheng International Logistics Co., Ltd	PRC	Logistics business	RMB1,235,450,000	24%	24%
(2)	Chiwan Container Terminal Co., Ltd.	PRC	Port operation	US$95,300,000	25%	25%
(4)	PT. Puninar Saranaraya	Indonesia	Logistics business	Ordinary	15%	15%

Notes:

(1) *English translation of name only*
(2) *Sino-foreign equity joint venture enterprise*
(3) *Companies having a financial accounting period which is not conterminous with the Group*
(4) *Significant influence is obtained by the Group through participation in the board of directors of the associate*

17 ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) The Group's share of results of its associates and joint ventures and its aggregate assets and liabilities are as follows:

	2018 HK$'000	2017 HK$'000
Aggregate attributable amounts of total assets	1,998,790	2,015,635
Aggregate attributable amounts of total liabilities	717,812	875,209
Aggregate attributable amounts of total turnover	741,701	588,681
Aggregate attributable amounts of net profit after tax	110,734	64,784

(c) The amounts due from associates and joint ventures are unsecured, and not expected to be received within twelve months for the respective end of the reporting periods. Except for the amounts of HK$188,824,000 (2017: HK$101,360,000) which bear interests at 4.35% per annum (2017: 4% – 4.35% per annum), all the other amounts due from associates and joint ventures are interest-free.

(d) The carrying amounts of the amounts due from associates and joint ventures are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
United States dollar	–	768
Renminbi	189,344	262,947
Hong Kong dollar	1,665	4,776
Other currencies	281	569
	191,290	269,060

(e) There is no associate and joint venture that is individually significant to the Group.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR-SALE-INVESTMENTS

	2018 HK$'000	2017 HK$'000
Listed equity securities, at fair value	52,614	53,638
Unlisted equity securities, at fair value	118,185	47,173
	170,799	100,811

19 INVESTMENT IN CONVERTIBLE BONDS

On 16 January 2015, KLN (Singapore) Pte. Ltd. ("KLN Singapore"), a wholly owned subsidiary of the Company, entered into a convertible bond subscription deed with PT Puninar Saranaraya ("PT Puninar"), currently an associate to the Group and the ultimate beneficial owner of one of the shareholders of PT Puninar, whereby KLN Singapore would subscribe for the convertible bond with 6% coupon rate per annum due on 30 April 2017 ("Maturity Date") issued by the ultimate beneficial owner of one of the shareholders of PT Puninar in the amount of US$45,000,000 (approximately HK$349,021,000) ("Principal Amount"). The Maturity Date has been extended to 30 April 2019. KLN Singapore may at any time up to the date which is one month prior to 30 April 2019, convert all of the Principal Amount of the convertible bond it holds into issued shares in the ultimate beneficial owner of one of the shareholders of PT Puninar. Upon completion of the conversion of the convertible bond, KLN Singapore will own an aggregate of 40% indirect interest in the total issued share capital of PT Puninar, including the 15% indirect interest acquired in 2015 for a consideration of US$16,000,000.

19 INVESTMENT IN CONVERTIBLE BONDS (CONTINUED)

On 12 August 2016, Kerry Logistics (China) Investment Limited ("KL China"), a wholly owned subsidiary of the Company, entered into a convertible bond subscription deed with UC Logistics Company Limited ("UC Express"), whereby KL China would subscribe for the convertible bond with 4.9% coupon rate per annum due on 11 August 2026 ("Maturity Date") issued by UC Express in the amount of RMB112,500,000 (approximately HK$126,720,000) ("Principal Amount"). KL China may at any time up to the date which is one month prior to the Maturity Date, convert all of the Principal Amount of the convertible bond it holds into newly issued shares of UC Express in the form of capital injection. Upon completion of the conversion of the convertible bond, KL China will own 9.0% in the total issued share capital of UC Express.

The convertible bonds contain embedded derivatives which are not closely related to the host contract. The entire combined contract has been designated as financial assets at fair value through profit or loss on initial recognition which were determined in accordance with the binomial model. The fair value of the convertible bonds are determined by reference to the valuation carried out on 31 December 2018 by independent qualified professional valuers not connected with the Group and has appropriate qualifications and recent experience in the valuation of similar convertible bonds.

20 INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods	425,217	333,758

The cost of inventories recognised as expenses and included in direct operating expenses for the year ended 31 December 2018 amounted to HK$1,515,436,000 (2017: HK$1,398,657,000).

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Unlisted equity securities, at fair value designated as financial assets at fair value through profit or loss	103,501	109,841
Listed equity securities designated as financial assets at fair value through profit or loss	158,383	–
	261,884	109,841

Changes in fair value of financial assets at fair value through profit or loss are recorded in 'other income and net gains' in the consolidated income statement (note 6).

22 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	2018 HK$'000	2017 HK$'000
Trade receivables	7,685,352	6,011,527
Less: Provision for impairment of receivables (note (c))	(151,719)	(104,872)
Trade receivables – net	7,533,633	5,906,655
Prepayments (note (d))	454,707	306,845
Deposits (note (e))	304,996	218,407
Others (note (f))	1,209,553	1,136,565
	9,502,889	7,568,472

Notes:

(a) *The ageing analysis of the trade receivables based on date of the invoice and net of provision for impairment is as follows:*

	2018 HK$'000	2017 HK$'000
Below 1 month	4,372,337	3,454,716
Between 1 month and 3 months	2,662,406	2,041,199
Over 3 months	498,890	410,740
	7,533,633	5,906,655

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

(b) *The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.*

(c) *As of 31 December 2018, trade receivables of HK$151,719,000 (2017: HK$104,872,000) were impaired and provided for.*

Movements on the provision for impairment of receivables are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	104,872	80,284
Provision for impairment of receivables	64,678	25,275
Reversal of provision	(1,963)	(4,040)
Receivables written off during the year as uncollectible	(6,237)	(1,953)
Exchange adjustment	(9,631)	5,306
At end of year	151,719	104,872

(d) *The balances of the Group mainly comprise prepaid rent and freight and transportation costs.*

(e) *The balances of the Group mainly comprise rental deposits and deposits to suppliers.*

(f) *The balances of the Group mainly comprise temporary payment made on behalf of the customers.*

(g) *The carrying amounts of the accounts receivable, prepayments and deposits are denominated in the following currencies:*

	2018 HK$'000	2017 HK$'000
Renminbi	2,839,768	2,653,167
Hong Kong dollar	1,410,503	1,199,639
Taiwan dollar	686,463	619,573
Thai Baht	753,485	460,883
United States dollar	1,213,508	890,394
Euro	932,097	358,886
Pound sterling	121,051	123,760
Indian Rupee	397,526	371,988
Malaysian Ringgit	156,403	150,387
United Arab Emirates Dirham	201,336	175,876
Australian dollar	76,976	86,028
Vietnamese Dong	85,103	76,061
Other currencies	628,670	401,830
	9,502,889	7,568,472

(h) *The carrying amount of accounts receivable approximates the fair value of these balances. The provision and reversal of provision for impairment of receivables have been included in direct operating expenses in the consolidated income statement. Amounts charged to the allowance account are written off when there is no expectation of recovery.*

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

23 BALANCES WITH GROUP COMPANIES

The balances with group companies are unsecured, interest-free and have no fixed terms of repayment. They are denominated mainly in Hong Kong dollars.

The collection of receivables with group companies is closely monitored in order to minimise any credit risk associated with the receivables. All of these financial assets are considered to have low credit risk as they have a low risk of default and the counterparty has strong capability to meet its contractual cash flow obligations in the near term. Therefore, impairment provision was limited to twelve months expected losses and estimated to be minimal.

Note:

Amounts due to non-controlling interests of HK$27,363,000 (2017: HK$27,518,000) was included in the amounts due to related companies. The balance are denominated in United States dollar.

24 RESTRICTED AND PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) RESTRICTED AND PLEDGED BANK DEPOSITS

As at 31 December 2018, the Group's bank balances amounting to approximately HK$20,148,000 (2017: HK$22,926,000) represented deposits pledged to secure general banking facilities granted to the Group.

(b) CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash at bank and in hand	4,037,416	3,442,933
Short-term bank deposits	268,533	126,693
Cash and bank balances	4,305,949	3,569,626

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2018 HK$'000	2017 HK$'000
Cash and bank balances	4,305,949	3,569,626
Secured bank overdrafts	(46,561)	(48,395)
Unsecured bank overdrafts	(146,515)	(2,611)
	4,112,873	3,518,620

Cash and cash equivalents are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Renminbi	1,478,173	1,139,405
Hong Kong dollar	732,831	348,368
United States dollar	521,373	673,726
Taiwan dollar	518,900	425,349
Pound sterling	83,016	59,443
Vietnamese Dong	124,797	105,276
Singapore dollar	127,586	140,147
Other currencies	526,197	626,906
	4,112,873	3,518,620

For the Group's subsidiaries incorporated in the PRC, conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

25 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	2018 HK$'000	2017 HK$'000
Trade payables	3,707,939	2,857,942
Accrued charges (note (c))	1,074,435	1,006,821
Customer deposits	137,307	129,259
Consideration payable for business combinations	366,606	213,122
Others (note (d))	3,021,392	2,723,130
	8,307,679	6,930,274
Less: Non-current consideration payable for business combinations	(348,513)	(188,033)
Non-current written put option liabilities (note (e))	(1,163,428)	(1,176,410)
	6,795,738	5,565,831

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

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

	2018 HK$'000	2017 HK$'000
Below 1 month	2,322,677	1,560,679
Between 1 month and 3 months	761,110	701,091
Over 3 months	624,152	596,172
	3,707,939	2,857,942

(b) The carrying amounts of the Group's trade payable, deposits received and accrued charges are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Renminbi	2,207,982	2,017,393
Hong Kong dollar	963,908	718,026
Taiwan dollar	530,556	456,974
United States dollar	1,944,676	1,818,905
Euro	764,236	400,602
Pound sterling	124,673	125,240
Thai baht	1,014,829	736,712
Indian Rupee	104,808	111,309
Malaysian Ringgit	114,105	95,090
Other currencies	537,906	450,023
	8,307,679	6,930,274

(c) The balances of the Group mainly comprise accrued employee benefit expenses and freight and transportation costs.

(d) The balances of the Group mainly comprise written put option liabilities, freight charges received in advance and value added tax payables.

(e) Pursuant to agreements entered into between the Group with Transpeed and APEX respectively in 2016, the Group has granted put options which entitle the non-controlling interests of Transpeed and APEX to sell the remaining interests to the Group. In addition, the Group has been granted call options to acquire the remaining interests in the acquired entities at the same exercise prices, (the "Transpeed options" and "Apex options" respectively). The exercise prices are determined by the estimated post-acquisition financial performance of the acquired entities. The Transpeed options are exercisable before the end of June 2020. The Apex options will be exercisable between 2019 and 2021. The Apex options that are exercisable in 2019 have been extended to 2020. The options are initially recognised at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest. The options liability shall be re-measured at its fair value resulting from the change in the expected performance of Transpeed and APEX at the end of each reporting date, with any resulting gain or loss recognised in the consolidated income statement. In the event that the options lapse unexercised, the liability will be derecognised with a corresponding adjustment to equity.

Pursuant to profit guarantee and share pledge agreements entered into between the Group and APEX in 2016, the remaining shareholders guaranteed to the Group that the audited average annual EBITDA* of APEX for the three financial years ended 31 December 2016, 2017 and 2018 should be no less than US$19 million each year (the "Profit Guarantee"). The Profit Guarantee provided by the remaining shareholders has been fully met.

* *EBITDA – the combined earnings before interest, taxes, depreciation and amortization of APEX during a fiscal year, as determined by reference to the combined financial statements of APEX relating to such fiscal year and applying International Financial Reporting Standards, and excluding, amongst other things, all one-off and/or non-recurrent items and extraordinary items which do not arise out of the ordinary course of business of APEX from the EBITDA calculation*

26 SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised, issued and fully paid:		
1,705,263,112 ordinary shares of HK$0.5 each (2017: 1,696,087,112 ordinary shares of HK$0.5 each)	852,632	848,044

	2018		2017	
	No. of shares	HK$'000	No. of shares	HK$'000
At 1 January	1,696,087,112	848,044	1,695,421,112	847,711
Exercise of pre-IPO share option scheme allotment	9,166,000	4,583	666,000	333
Exercise of post-IPO share option scheme allotment	10,000	5	–	–
At 31 December	1,705,263,112	852,632	1,696,087,112	848,044

27 SHARE PREMIUM AND OTHER RESERVES

	Share premium HK$'000	Other properties revaluation reserve HK$'000	Share options reserve HK$'000	Capital reserve (note (a)) HK$'000	Enterprise expansion and general reserve funds (note (b)) HK$'000	Exchange fluctuation reserve HK$'000	Acquisition reserve (note (c)) HK$'000	Available-for-sale investments reserve HK$'000	FVOCI reserve HK$'000	Total HK$'000
At 1 January 2018	3,008,626	142,934	49,806	577,746	125,663	67,756	(1,167,595)	(11,573)	–	2,793,363
Impact on adoption of HKFRS 9 (Note 2(a)(II))	–	–	–	–	–	–	–	11,573	(11,573)	–
Restated balance as at 1 January 2018	3,008,626	142,934	49,806	577,746	125,663	67,756	(1,167,595)	–	(11,573)	2,793,363
Net translation differences on foreign operations	–	–	–	–	–	(420,181)	–	–	–	(420,181)
Exercise of pre-IPO share option scheme allotment	99,847	–	(10,936)	–	–	–	–	–	–	88,911
Exercise of post-IPO share option scheme allotment	137	–	(19)	–	–	–	–	–	–	118
Change in ownership of interests in subsidiaries without change of control	–	–	–	–	–	–	648,036	–	–	648,036
Transfers from retained profits	–	–	–	–	19,061	–	–	–	–	19,061
Fair value change on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	–	11,173	11,173
Share option lapsed	–	–	(298)	–	–	–	–	–	–	(298)
At 31 December 2018	3,108,610	142,934	38,553	577,746	144,724	(352,425)	(519,559)	–	(400)	3,140,183

27 SHARE PREMIUM AND OTHER RESERVES (CONTINUED)

	Share premium HK$'000	Other properties revaluation reserve HK$'000	Share options reserve HK$'000	Capital reserve (note (a)) HK$'000	Enterprise expansion and general reserve funds (note (b)) HK$'000	Exchange fluctuation reserve HK$'000	Acquisition reserve (note (c)) HK$'000	Available-for-sale investments reserve HK$'000	Total HK$'000
At 1 January 2017	3,001,372	142,934	50,792	577,746	72,930	(679,231)	(1,143,592)	(10,119)	2,012,832
Net translation differences on foreign operations	–	–	–	–	–	746,987	–	–	746,987
Exercise of pre-IPO share option scheme allotment	7,254	–	(795)	–	–	–	–	–	6,459
Change in ownership of interests in subsidiaries without change of control	–	–	–	–	–	–	(24,003)	–	(24,003)
Transfers from retained profits	–	–	–	–	52,733	–	–	–	52,733
Fair value change on available-for-sale investments	–	–	–	–	–	–	–	(1,454)	(1,454)
Share option lapsed	–	–	(191)	–	–	–	–	–	(191)
At 31 December 2017	3,008,626	142,934	49,806	577,746	125,663	67,756	(1,167,595)	(11,573)	2,793,363

Notes:

(a) *Capital reserve of the Group arose from the Group's reorganisation in preparation for the listing of Kerry Properties Limited, its fellow subsidiary, on the Stock Exchange of Hong Kong Limited in August 1996, adjusted by the excess or deficit of the fair values of the net assets of subsidiaries and associates subsequently acquired over the cost of investment at the date of acquisition before 1 January 2001.*

(b) *Enterprise expansion and general reserve funds are set up by a subsidiary established and operating in the PRC and Taiwan. According to the PRC Foreign Enterprise Accounting Standards, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital.*

(c) *The acquisition reserve arose from the acquisition of additional interest or disposal of interest in subsidiaries that do not result in a change of control by the Group, and represents any differences between the amount by which the non-controlling interests are adjusted (to reflect the changes in the interests in the subsidiaries) and the fair value of the consideration paid or received.*

28 LOANS FROM NON-CONTROLLING INTERESTS

Loans from non-controlling interests of certain subsidiaries are unsecured, interest-free and not repayable within twelve months from the end of each reporting period.

The carrying amounts of the loans from non-controlling interests are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Renminbi	3,506	17,397
Hong Kong dollar	27,195	1,200
Other currencies	147,132	148,229
	177,833	166,826

29 BANK LOANS

	2018 HK$'000	2017 HK$'000
Non-current		
– unsecured	3,918,104	3,280,408
– secured (note 35)	651,460	918,350
	4,569,564	4,198,758
Current		
– unsecured	4,437,736	3,880,199
– secured (note 35)	499,166	75,523
	4,936,902	3,955,722
Total bank loans	9,506,466	8,154,480

(a) The maturity of bank loans is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	4,936,902	3,955,722
Between 1 and 2 years	2,185,439	2,020,074
Between 2 and 5 years	2,266,652	2,177,418
Repayable within 5 years	9,388,993	8,153,214
Over 5 years	117,473	1,266
	9,506,466	8,154,480

29 BANK LOANS (CONTINUED)

(b) The effective annual interest rates of the major bank borrowings at the end of the reporting period were as follows:

	2018				
	HK$	Singapore dollar	Renminbi	Thai baht	Taiwan dollar
Bank loans	2.61%	3.43%	4.94%	2.85%	1.34%

	2017				
	HK$	Singapore dollar	Renminbi	Thai baht	Taiwan dollar
Bank loans	2.10%	3.16%	5.03%	2.90%	1.27%

(c) The carrying amounts of the bank loans approximate their fair values.

(d) The carrying amounts of the bank loans are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Hong Kong dollar	5,126,000	4,123,000
Taiwan dollar	2,697,473	2,552,535
United States dollar	624,653	362,543
Thai baht	560,940	653,856
Singapore dollar	89,971	111,188
Renminbi	312,987	252,338
Other currencies	94,442	99,020
	9,506,466	8,154,480

30 DEFERRED TAXATION

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018 HK$'000	2017 HK$'000
Deferred tax assets		
– Deferred tax asset to be recovered after more than 12 months	(85,580)	(98,432)
Deferred tax liabilities		
– Deferred tax liability to be settled after more than 12 months	673,955	662,629
Deferred tax liabilities (net)	588,375	564,197

30 DEFERRED TAXATION (CONTINUED)

The movement on the deferred income tax account is as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	564,197	516,665
Acquisition of subsidiaries (note 33)	45,419	27,227
Deferred taxation charged/ (credited) to income statement (note 9)	1,569	(2,071)
Deferred taxation charged to other comprehensive income	(2,239)	(1,682)
Transfer to current tax liabilities upon the distribution of dividends	(12,068)	(1,303)
Exchange adjustment	(8,503)	25,361
At end of year	588,375	564,197

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2018, the Group has unrecognised tax losses of HK$357,160,000 (2017: HK$329,756,000). These tax losses have no expiry dates except for the tax losses of HK$313,072,000 (2017: HK$265,940,000) which can be carried forward up to a maximum period of 9 years.

As at 31 December 2018, the aggregate amount of unrecognised deferred tax liabilities associated with undistributed earnings in subsidiaries totalled approximately HK$91,710,000 (2017: HK$81,584,000), as the Directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not reverse in the foreseeable future.

30 DEFERRED TAXATION (CONTINUED)

The movements in deferred tax (assets) and liabilities during the year were as follows:

	Group					
	Pension obligations HK$'000	Accelerated depreciation allowances and intangible assets from business combination HK$'000	Revaluation HK$'000	Tax losses HK$'000	Withholding tax on distributed profits of subsidiaries and associates HK$'000	Total HK$'000
At 1 January 2017	(24,282)	378,528	328,949	(193,903)	27,373	516,665
Deferred taxation charged/(credited) to income statement	5,009	(16,025)	(13,613)	18,215	4,343	(2,071)
Deferred taxation credited to other comprehensive income	(1,682)	–	–	–	–	(1,682)
Transfer to current tax liabilities upon the distribution of dividends	–	–	–	–	(1,303)	(1,303)
Acquisition of subsidiaries	–	27,225	–	2	–	27,227
Effect of change in tax rate	–	(53,519)	–	53,519	–	–
Exchange adjustment	(2,348)	27,709	–	–	–	25,361
At 31 December 2017	(23,303)	363,918	315,336	(122,167)	30,413	564,197
At 1 January 2018	(23,303)	363,918	315,336	(122,167)	30,413	564,197
Deferred taxation charged/(credited) to income statement	5,056	8,450	(23,091)	808	10,346	1,569
Deferred taxation credited to other comprehensive income	(2,239)	–	–	–	–	(2,239)
Acquisition of subsidiaries (note 33)	–	45,419	–	–	–	45,419
Exchange adjustment	459	(8,962)	–	–	–	(8,503)
Transfer to current tax liabilities upon the distribution of dividends	–	–	–	–	(12,068)	(12,068)
At 31 December 2018	(20,027)	408,825	292,245	(121,359)	28,691	588,375

31 RETIREMENT BENEFITS

The Group operates various pension schemes. The schemes are funded through payments to independent trustee-administered funds. The Group has both defined contribution and defined benefit plans during the year.

(a) DEFINED CONTRIBUTION PLANS

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1 December 2000.

The MPF Scheme is a master trust scheme established under a trust arrangement and is governed by Hong Kong law. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,500 (prior to 1 June 2014: HK$1,250) per employee per month (the "MPF Contribution"). The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is HK$7,100 (prior to 1 June 2014: HK$6,500) per month or more. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

Certain companies within the Group are also participants of the Kerry Trading Co. Limited – Provident Fund Scheme (the "Fund") which is a defined contribution scheme as defined in the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong). The Fund is for certain salaried persons (the "Fund Members") under the employment of the companies participating in the Fund. The assets of the Fund are managed by the trustees of the Fund. Contributions are made to the Fund by companies participating in the Fund at 10% of the Fund Members' monthly basic salaries up to a maximum of HK$10,000 (2017: HK$10,000) per Fund Member per month (the "Basic Contribution") less the MPF Contribution if the Basic Contribution is higher than the MPF Contribution. Fund Members are entitled to 100% of the employers' contributions to the Fund plus investment earnings upon leaving employment after completing ten years of service or more, or upon retirement after attaining the retirement age after any number of years of service, or upon retirement due to ill health. Fund Members are also entitled to the employers' contributions to the Fund plus investment earnings calculated at a reduced scale of between 20% and 90% after completing a period of service of at least two but less than ten years. The unvested benefits of employees terminating employment forfeited in accordance with the terms of the Fund can be utilised by the companies participating in the Fund to reduce future contributions. Such forfeited contributions utilised during the year as well as the unutilised forfeited contributions available at the year end to reduce future contributions are minimal.

The subsidiaries operating in the PRC and overseas participate in the defined contribution retirement schemes as required by the relevant local government authorities. The Group is required to make contributions at a certain percentage of employees' salary in accordance with the schemes set up by the PRC and overseas subsidiaries and/or under statutory requirements.

31 RETIREMENT BENEFITS (CONTINUED)

(b) DEFINED BENEFIT PLANS

The Group operates defined benefit pension plans in Taiwan which are final salary defined benefit plans. The assets of the funded plans are held independently of the Group's assets. The contributions are placed with a government institution. The plans are valued by an independent qualified actuary, Hsu Mao-Chin Actuary (the Actuarial Institute of the Republic of China), annually using the projected unit credit method.

The amounts recognised in the consolidated income statement were as follows:

	2018 HK$'000	2017 HK$'000
Current service cost	2,984	3,679
Interest cost, net	2,129	2,833
Total, included in staff costs (note 12)	5,113	6,512

Out of the total charge, for the year ended 31 December 2018, HK$4,975,000 (2017: HK$6,345,000) were included in direct operating expenses, and HK$138,000 (2017: HK$167,000) were included in administrative expenses, respectively.

The amounts recognised in the consolidated statement of financial position are as follows:

	2018 HK$'000	2017 HK$'000
Fair value of plan assets	138,143	125,922
Present value of funded obligations	(251,064)	(262,976)
Total pension liabilities	(112,921)	(137,054)

The movements in the fair value of plan assets for the year are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	125,922	117,823
Remeasurements	1,957	2,338
Employer contributions	36,668	36,741
Benefits paid	(26,041)	(41,793)
Exchange adjustment	(363)	10,813
At end of year	138,143	125,922

The movements in the present value of defined benefit obligations recognised in the consolidated statement of financial position are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	262,976	260,676
Current service cost	2,984	3,679
Interest cost	4,086	5,171
Remeasurements	14,359	8,630
Benefits paid	(26,041)	(41,793)
Exchange adjustment	(7,300)	26,613
At end of year	251,064	262,976

	2018 HK$'000	2017 HK$'000
Actual return on plan assets in the year	3,175	(1,262)

31 RETIREMENT BENEFITS (CONTINUED)

(b) DEFINED BENEFIT PLANS (CONTINUED)

The principal actuarial assumptions used are as follows:

	2018	2017
Discount rate applied to pension obligations	1.25%	1.60%
Future salary increases	1.00%	1.00%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Unfavourable change	
	2018 HK$'000	2017 HK$'000
Discount rate applied to pension obligations decreases by 0.5%	11,017	13,085
Future salary increases by 0.5%	10,986	13,096

	Favourable change	
	2018 HK$'000	2017 HK$'000
Discount rate applied to pension obligations increases by 0.5%	(10,026)	(11,907)
Future salary decreases by 0.5%	(10,095)	(12,029)

The fair value of plan assets comprised as follows.

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents	23,692	29,377
Debt instruments	11,369	14,771
Equity instruments	103,082	81,774
	138,143	125,922

The history of defined benefit plans as at 31 December 2018 and 2017 are as follows:

	2018 HK$'000	2017 HK$'000
Fair value of plan assets	138,143	125,922
Present value of pension obligations	(251,064)	(262,976)
Deficit	(112,921)	(137,054)

The Group will make additional cash contributions towards the deficit when needed.

Expected employer contribution to the plans of the Group for the year ending 31 December 2019 is HK$36,668,000.

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to net cash generated from operations:

	2018 HK$'000	2017 HK$'000
Profit before taxation	3,378,183	2,968,812
Share of results of associates and joint ventures	(110,734)	(64,784)
Interest income	(43,436)	(19,243)
Interest income from convertible bonds	(21,096)	(27,219)
Dividend income from available-for-sale investments	–	(6,860)
Dividend income from financial assets at fair value through other comprehensive income	(10,643)	–
Finance costs	224,245	159,825
Fair value change of financial assets at fair value through profit or loss	21,104	(61,370)
Change in fair value of investment properties	(1,097,933)	(901,632)
Loss on disposal of an associate	424	–
Gain on disposal of subsidiaries	(84,086)	–
Gain on disposal of property, plant and equipment	(38,729)	(60,015)
Gain on disposal of an investment property	–	(35,304)
Provision for impairment of receivables	64,678	25,275
Reversal of provision for impairment of receivables	(1,963)	(4,040)
Amortisation of intangible assets	106,659	89,873
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	672,577	550,016
Gain on settlement of consideration payable for business combinations	(18,289)	–
Goodwill impairment	–	50,000
Operating cash flow before working capital changes	3,040,961	2,663,334
Increase in inventories, accounts receivable, prepayments and deposits and balances with fellow subsidiaries	(1,863,674)	(1,396,331)
Increase in current liabilities, excluding taxation, bank loans and bank overdrafts	1,198,618	995,093
Change in net pension liabilities	(31,579)	(30,183)
Net cash generated from operations	2,344,326	2,231,913

(b) Analysis of the net cash outflow in respect of the acquisition of subsidiaries treated as business combinations:

	2018 HK$'000	2017 HK$'000
Cash consideration paid	(624,597)	(580,809)
Cash consideration paid for prior year's acquisitions	(30,794)	(41,133)
Cash and bank balances acquired	234,351	137,112
Net cash outflow in respect of the acquisition of subsidiaries	(421,040)	(484,830)

(c) Disposal of a subsidiary

	HK$'000
Net assets disposed	
Property, plant and equipment (note 16)	42,417
Leasehold land and land use rights (note 15)	10,561
Accounts payable, deposits received and accrued charges	(25,529)
Book value of net assets disposed	27,449

Analysis of gain on disposal of a subsidiary

	HK$'000
Consideration net of expenses incurred	111,535
Less: Net assets disposed	(27,449)
	84,086

(d) Transactions with non-controlling interests

During the year, the Group disposed effective interests of 17% in Kerry Express Thailand and completed other transactions with non-controlling interest and the net impact is shown as follows:

	HK$'000
Net cash consideration received from non-controlling interests	570,268
Consideration received from non-controlling interests in the form of shares	151,184
Total consideration	721,452
Decrease in put options written on non-controlling interests	(47,530)
Net increase in non-controlling interests	(25,886)
Changes in equity attributable to the Company's shareholders arising from changes in ownership of interests in subsidiaries without change of control	648,036

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(e) Reconciliation of liabilities arising from financing activities

	Bank loans HK$'000	Loans from non-controlling interest HK$'000	Total HK$'000
Balance as at 1 January 2017	(6,911,031)	(194,715)	(7,105,746)
Net cash flows	(847,689)	32,144	(815,545)
Foreign exchange adjustments	(306,892)	(4,255)	(311,147)
Acquisition of subsidiaries	(88,868)	–	(88,868)
Balance as at 31 December 2017	(8,154,480)	(166,826)	(8,321,306)
Balance as at 1 January 2018	(8,154,480)	(166,826)	(8,321,306)
Net cash flows	(1,403,055)	(18,188)	(1,421,243)
Foreign exchange adjustments	95,986	7,181	103,167
Acquisition of subsidiaries (note 33)	(44,917)	–	(44,917)
Balance as at 31 December 2018	(9,506,466)	(177,833)	(9,684,299)

33 BUSINESS COMBINATIONS

In January 2018, the Group acquired 51% interest in an international freight forwarding business based in Taiwan.

In March 2018, the Group acquired 51% interest in an international freight forwarding business based in Hong Kong.

In May 2018, the Group acquired 51% interest in several international freight forwarding companies based in China.

In May 2018, the Group acquired 100% interest in Shipping and Airfreight Services (Pty) Limited, which is engaged in freight forwarding services in South Africa.

In June 2018, the Group acquired 100% interest in Saga Italia S.p.A., which is engaged in international freight forwarding in Italy.

In June 2018, the Group acquired 51% interest in an international freight forwarding company based in Malaysia.

In October 2018, the Group acquired 90% interest in a logistics company based in Hong Kong.

Aggregate consideration of the acquisition transactions is as follows:

	HK$'000
Cash consideration paid	624,597
Consideration to be paid	180,621
	805,218

33 BUSINESS COMBINATIONS (CONTINUED)

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

	HK$'000
Property, plant and equipment (note 16)	27,949
Intangible assets	
– Customer relationships (note 13)	204,362
– Non-compete agreements (note 13)	19,843
Accounts receivable, prepayments and deposits	251,935
Cash and bank balances	234,351
Tax recoverable	1,021
Accounts payable, deposits received and accrued charges	(24,279)
Bank loans	(44,917)
Taxation	(1,770)
Deferred taxation (note 30)	(45,419)
Total identifiable net assets	623,076
Goodwill (note 13)	328,187
Non-controlling interests	(146,045)
Total	805,218

The goodwill of HK$328,187,000 arising from these acquisitions is attributable to the future profitability of the acquired businesses.

The acquired businesses contributed turnover of HK$1,245,162,000 and net profit of HK$44,212,000 to the Company's shareholders for the period from their respective acquisition dates up to 31 December 2018. If the acquisitions had occurred on 1 January 2018, the contributed turnover and profit attributable to Company's shareholders for the year ended 31 December 2018 would have been HK$1,607,028,000 and HK$44,036,000 respectively.

34 COMMITMENTS

(a) At 31 December 2018, the Group had capital commitments in respect of property, plant and equipment and acquisition of subsidiaries not provided for in these financial statements as follows:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for	1,014,433	1,527,636

(b) At 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 HK$'000	2017 HK$'000
Land and buildings:		
Within one year	557,280	391,181
In the second to fifth year, inclusive	794,429	744,884
Over five years	311,542	385,476
	1,663,251	1,521,541

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are mainly between 1 year and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

(c) The Group's future aggregate minimum lease payments receivable on leases of investment properties are disclosed in note 14(e).

35 PLEDGE OF ASSETS

At 31 December 2018, the Group's total bank loans of HK$9,506,466,000 (2017: HK$8,154,480,000) included an aggregate amount of HK$1,150,626,000 (2017: HK$993,873,000) which is secured. The Group's total bank overdrafts of HK$193,076,000 (2017: HK$51,006,000) included an aggregate amount of HK$46,541,000 (2017: HK$48,395,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

(i) legal charges over certain investment properties, leasehold land and land use rights, freehold land and buildings, warehouse and logistics centres and port facilities with an aggregate net book value of HK$2,872,808,000 (2017: HK$2,591,024,000) (notes 14, 15 and 16);

(ii) assignments of insurance proceeds of certain properties; and

(iii) certain balances of restricted and pledged deposits.

36 SHARE OPTIONS

KPL SHARE OPTIONS SCHEMES

The fair value of share options granted to the Directors and employees of the Group were recharged to the Group by KPL. There are 2 share option schemes of KPL as follows:

(a) 2002 SHARE OPTION SCHEME

The 2002 Share Option Scheme was terminated on 5 May 2011 such that no further share options shall be offered but the share options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Details of the movement of the share options granted to the Directors and employees of the Group under the 2002 Share Option Scheme are as follows:

	2018		2017	
	Weighted average exercise price in HK$ per share	Number of share options	Weighted average exercise price in HK$ per share	Number of share options
At 1 January	47.32	2,380,000	46.83	2,420,000
Exercised during the year (note (i))	–	–	17.58	(40,000)
Lapsed during the year	47.70	(2,350,000)	–	–
At 31 December (note (ii))	17.58	30,000	47.32	2,380,000

36 SHARE OPTIONS (CONTINUED)

KPL SHARE OPTIONS SCHEMES (CONTINUED)

(a) 2002 SHARE OPTION SCHEME (CONTINUED)

Since no share option was exercised during the year ended 31 December 2018, there was no weighted average share price (2017: HK$34.78), and no proceeds were received (2017: HK$703,200). No share option was granted, granted for adjustment or cancelled during the year (2017: Nil).

Notes:

(i) *Details of share options exercised:*

Exercise price per share (HK$)	*Number of share options 2018*	*2017*
17.58	–	40,000

(ii) *Terms of share options at the end of the reporting period were as follows:*

Exercise period	*Exercise price per share (HK$)*	*Number of share options 2018*	*2017*
02/04/2009-01/04/2018	47.70	–	587,500
02/04/2010-01/04/2018	47.70	–	587,500
02/04/2011-01/04/2018	47.70	–	1,175,000
06/02/2011-05/02/2019	17.58	30,000	30,000
		30,000	2,380,000

(b) 2011 SHARE OPTION SCHEME

The 2011 Share Option Scheme was adopted by KPL on 5 May 2011. Under the 2011 Share Option Scheme, the directors of KPL may, at their discretion, grant share options to executives and key employees and other persons who may make a contribution to KPL and its subsidiaries. The exercise price for any particular share options shall be such price as the board of directors of KPL may in its absolute discretion determine at the time of grant of the relevant share option subject to the compliance with the Listing Rules.

Details of the movement of the share options granted to the Directors and employees of the Group under the 2011 Share Option Scheme are as follows:

36 SHARE OPTIONS (CONTINUED)

KPL SHARE OPTIONS SCHEMES (CONTINUED)

(b) 2011 SHARE OPTION SCHEME (CONTINUED)

	2018		2017	
	Weighted average exercise price in HK$ per share	Number of share options	Weighted average exercise price in HK$ per share	Number of share options
At 1 January	35.45	6,870,000	33.91	8,370,000
Exercised during the year (note (i))	35.45	(3,071,000)	26.88	(1,500,000)
Lapsed during the year	35.45	(160,000)	–	–
At 31 December (note (ii))	35.45	3,639,000	35.45	6,870,000

For the share options exercised during the year ended 31 December 2018, the related weighted average share price at the time of exercise was HK$40.26 (2017: HK$32.82), and the total amount of proceeds received was HK$108,866,950 (2017: HK$40,320,000). No share option was granted, granted for adjustment or cancelled during the year (2017: Nil).

Note:

(i) Details of share options exercised:

Exercise price per share (HK$)	*Number of share options*	
	2018	*2017*
35.45	*3,071,000*	*–*
26.88	*–*	*1,500,000*
	3,071,000	*1,500,000*

(ii) Terms of share options at the end of the reporting period were as follows:

	Exercise price per share	*Number of share options*	
Exercise period	*(HK$)*	*2018*	*2017*
31/10/2012–29/04/2022	*35.45*	*1,613,000*	*3,435,000*
31/10/2013–29/04/2022	*35.45*	*2,026,000*	*3,435,000*
		3,639,000	*6,870,000*

36 SHARE OPTIONS (CONTINUED)

KLN SHARE OPTIONS SCHEMES

(a) 2013 PRE-IPO SHARE OPTION SCHEME

The 2013 Pre-IPO Share Option Scheme was adopted by KLN on 25 November 2013. Under the 2013 Pre-IPO Share Option Scheme, the Directors of KLN may, at their absolute discretion, grant share options to motivate executives and key employees and other persons who may make a contribution to the Group, and enables KLN to attract and retain individuals with experience and ability and to reward them for their contributions. The exercise price of the options granted under the Pre-IPO Share Option Scheme is the offer price pursuant to the Global Offering of the shares of KLN.

Details of the movement of the share options granted to the Directors and employees of the Group under the 2013 Pre-IPO Share Option Scheme are as follows:

	2018		2017	
	Weighted average exercise price in HK$ per share	Number	Weighted average exercise price in HK$ per share	Number
At 1 January	HK$10.2	35,004,500	HK$10.2	35,830,500
Exercised during the year (note (i))	HK$10.2	(9,166,000)	HK$10.2	(666,000)
Lapsed during the year (note (ii))	HK$10.2	(250,000)	HK$10.2	(160,000)
At 31 December (note (iii))	HK$10.2	25,588,500	HK$10.2	35,004,500

For the share options exercised during the year ended 31 December 2018, the related weighted average share price at the time of exercise was HK$12.18 (2017: HK$11.35), and the total amount of proceeds received was approximately HK$93,493,200 (2017: HK$6,793,000). No share option was granted, granted for adjustment or cancelled during the year (2017: nil).

36 SHARE OPTIONS (CONTINUED)

KLN SHARE OPTIONS SCHEMES (CONTINUED)

(a) 2013 PRE-IPO SHARE OPTION SCHEME (CONTINUED)

Notes:

(i) *Details of share options exercised:*

Exercise price per share (HK$)	Number of share options 2018	2017
10.2	9,166,000	666,000
	9,166,000	666,000

(ii) *Details of share options lapsed:*

Exercise price per share (HK$)	Number of share options 2018	2017
10.2	250,000	160,000
	250,000	160,000

(iii) *Terms of share options at the end of the reporting period were as follows:*

Exercise period	Exercise price per share (HK$)	Number of share options 2018	2017
19/12/2013 – 01/12/2023	10.2	11,517,000	16,990,000
02/12/2014 – 01/12/2023	10.2	14,071,500	18,014,500
		25,588,500	35,004,500

(iv) *The weighted average fair value of the share options granted on 2 December 2013 to the directors and employees of the Group was HK$1.19 per share. The valuation was based on a Binomial Model with the following data and assumptions:*

Share price at grant date: HK$8.16
Exercise price: HK$10.2
Expected volatility [I]: 30% per annum
Share options life: 10 years
Average risk-free interests rate [II]: 2.11% per annum
Expected dividend yield: 3.35% per annum

Notes:

I *It was determined based on historical share price movement.*

II *It is taken to be equal to the yield of Hong Kong government bonds over the exercise period.*

The valuation has also taken into account the assumed rate of leaving service of 10% per annum and the assumption of early exercise of the share options by the optionholders when the share price is at least 180% of the exercise price.

The value of the share options varies with different values of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of the share options.

(b) 2013 POST-IPO SHARE OPTION SCHEME

The 2013 Post-IPO Share Option Scheme was adopted by the Company on 25 November 2013 and became effective on 19 December 2013 and, unless otherwise cancelled or amended will remain in force for 10 years from that date.

Under the 2013 Post-IPO Share Option Scheme, the Directors of the Company may, at their absolute discretion, grant share options to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Company to attract and retain individuals with experience and ability and to reward them for their contributions.

The maximum number of the Company's shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 30% of the total number of shares in issue.

The exercise period of the share options granted is determinable and notified by the directors, and may commerce after the date of grant but shall not be later than 10 years from the date of grant.

The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares on the date of the offer of the share options; and (iii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

36 SHARE OPTIONS (CONTINUED)

KLN SHARE OPTIONS SCHEMES (CONTINUED)

(b) *2013 POST-IPO SHARE OPTION SCHEME (CONTINUED)*

On 9 January 2015, a total of 4,350,000 share options were granted under the Post-IPO Share Option Scheme. Out of which, 2,175,000 share options are exercisable during the period from 9 January 2015 to 8 January 2020 and 2,175,000 share options are exercisable during the period from 9 January 2016 to 8 January 2020.

A total of 10,000 share options were exercised during the year ended 31 December 2018. As at 31 December 2018, a total of 4,140,000 share options were outstanding.

The weighted average fair value of share options granted on 9 January 2015 to the directors and employees of the Group was HK$1.95 per share. The valuation was based on a Binomial Model with the following data and assumptions:

Share price at grant date:	HK$12.18
Exercise price:	HK$12.26
Expected volatility:	20% per annum
Share options life:	5 years
Average risk free interests rate:	1.24% per annum
Expected dividend yield:	1.40% per annum

37 RELATED PARTY TRANSACTIONS

Except for the related party transactions disclosed in notes 17, 23 and 28 in the consolidated financial statements, the Group had the following material related party transactions carried out in the normal course of business during the year:

(a) SALES/(PURCHASES) OF SERVICES

	2018 HK$'000	2017 HK$'000
Fellow subsidiaries		
Logistics services income	17,383	17,295
Rental expense	(8,595)	(8,722)
Associates of the Group/ Kerry Properties Limited/ Kerry Group Limited		
Rental expense	(35,442)	(37,993)
Interest income	–	1,789

These transactions were conducted at terms in accordance with the terms as agreed between the Group and the respective related parties.

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) KEY MANAGEMENT COMPENSATION

The key management compensation includes the salaries and other short-term benefits, excluding share option benefits, of the Board of Directors and twelve (2017: eleven) senior executives who report to the Board of Directors.

	2018 HK$'000	2017 HK$'000
Salaries and other short-term benefits	97,668	91,641

38 SUBSEQUENT EVENTS

On 28 March 2019, Kerry Warehouse (HK) Holdings Limited ("KWHK"), an indirect wholly-owned subsidiary of the Group, as vendor and Giant Assets Holdings Limited ("GAH"), an indirect wholly-owned subsidiary under Kerry Properties Limited, a controlling shareholder and substantial shareholder of the Group, as purchaser entered into conditional sales and purchase agreement, pursuant to which KWHK agreed to sell, and GAH agreed to purchase, the entire issued share capital in Dec Limited and Belminton Inc. and its subsidiaries (the "Target Companies") at a cash consideration of HK$3.6 billion (subject to adjustment, if any). The Target Companies is principally engaged in the provision of services relating to management and operation of warehouse facilities. The completion of the transaction is subject to the fulfilment of certain conditions including the independent shareholders' approval.

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES		
Non-current asset		
Subsidiaries	2,386,974	3,163,678
Current assets		
Financial assets at fair value through profit or loss	103,501	109,841
Prepayments	7,170	5,043
Amounts due from subsidiaries	7,118,656	5,526,057
Cash and bank balances	321,191	56,419
	7,550,518	5,697,360
Current liabilities		
Accrued charges	56,950	31,242
Amounts due to subsidiaries	4,695,994	2,265,170
Current portion of long-term bank loans	–	1,350,000
	4,752,944	3,646,412
ASSETS LESS LIABILITIES	5,184,548	5,214,626
EQUITY		
Share capital	852,632	848,044
Share premium	3,108,610	3,008,626
Retained profits	1,184,753	1,308,150
Share options reserve	38,553	49,806
TOTAL EQUITY	5,184,548	5,214,626

The statement of financial position of the Company was approved by the Board of Directors on 28 March 2019 and was signed on its behalf.

YEO George Yong-boon	MA Wing Kai William
Director	Director

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	Share capital HK$'000	Share premium HK$'000	Retained profits HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2017	847,711	3,001,372	1,009,887	50,792	4,909,762
Profit for the year	–	–	636,845	–	636,845
2016 final dividend paid	–	–	(203,477)	–	(203,477)
2017 interim dividend paid	–	–	(135,688)	–	(135,688)
Exercise of pre-IPO share option scheme allotment	333	7,254	–	(795)	6,792
Share option lapsed	–	–	583	(191)	392
At 31 December 2017	848,044	3,008,626	1,308,150	49,806	5,214,626
At 1 January 2018	848,044	3,008,626	1,308,150	49,806	5,214,626
Profit for the year	–	–	471,049	–	471,049
2017 final dividend paid	–	–	(237,671)	–	(237,671)
2018 interim dividend paid	–	–	(153,032)	–	(153,032)
2018 special dividend paid	–	–	(204,041)	–	(204,041)
Exercise of pre-IPO share option scheme allotment	4,583	99,847	–	(10,936)	93,494
Exercise of post-IPO share option scheme allotment	5	137	–	(19)	123
Share option lapsed	–	–	298	(298)	–
At 31 December 2018	852,632	3,108,610	1,184,753	38,553	5,184,548

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES

At 31 December 2018, the Company held interests in the following principal subsidiaries:

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[8]/ registered capital	Interest held indirectly 2018	Interest held indirectly 2017
(13)	Able Logistics Group FZCO	UAE	Freight forwarding	AED10,000,000	75%	70%
(13)	ABX Express (M) Sdn. Bhd.	Malaysia	Express business	MYR2,500,000	100%	51%
(13)	APEX Maritime Co., Inc.	US	Freight forwarding	US$238,203	51%	51%
(13)	APEX Maritime Co. (LAX), Inc.	US	Freight forwarding	US$100,000	51%	51%
(1)(3)(13)	Beijing Kerry Logistics Ltd.	PRC	Logistics business	US$12,000,000	100%	100%
(1)(4)	Beijing Tengchang International Transportation Service Co., Ltd.	PRC	Freight forwarding	RMB30,000,000	51%	51%
(1)(3)(13)	Chengdu Kerry Shudu Logistics Co., Ltd.	PRC	Logistics business	RMB50,000,000	100%	100%
(13)	Columbia International Removals Limited	HK	Logistics business	HK$5,000,000	90%	–
(1)(3)(13)	CV Global Logistics (Beijing) Limited	PRC	Logistics business	RMB50,000,000	100%	100%
(13)	E.A.E. Freight & Forwarding Sdn. Bhd.	Malaysia	Road freight	MYR500,000	100%	100%
(13)	F.D.I Co.,Ltd	Vietnam	Freight forwarding	VND20,000,000,000	70%	70%
(13)	Globalink Transportation and Logistics Worldwide LLP	Kazakhstan	Freight forwarding	KZT391,027,000	51%	51%
	International Enterprise Co. Limited	HK	Investment holding	HK$10 HK$10,000[10]	100%	100%
(1)(2)(13)	KART (China) Co., Ltd	PRC	Road freight	RMB20,000,000	100%	100%
(1)(13)	KART (Thailand) Limited	Thailand	Road freight	THB40,000,000	100%	100%
(13)	KART (Viet Nam) Company Limited	Vietnam	Road freight	VND4,173,000,000	100%	100%
(13)	Kerry Adco Logistics B.V.	Netherlands	Freight forwarding	EUR227,000	100%	100%
	Kerry Business Outsourcing Solutions Limited	HK	Documents storage	HK$2	100%	100%
	Kerry Cargo Centre Limited	HK	Warehouse ownership	HK$2	100%	100%

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[8]/ registered capital	Interest held indirectly 2018	Interest held indirectly 2017
	Kerry Cold Store (Hong Kong) Limited	HK	Warehouse operator	HK$20	100%	100%
	Kerry Distribution (Hong Kong) Limited	HK	Transportation and distribution services	HK$500,000	100%	100%
	Kerry Distribution Services (Hong Kong) Limited	HK	Transportation and distribution services	HK$10,000	100%	100%
[4][13]	Kerry EAS Logistics Limited	PRC	Logistics business	RMB270,000,000	70%	70%
	Kerry Express (Hong Kong) Limited	HK	Courier services and logistics	HK$5,000,000	80%	80%
[1][13]	Kerry Express (Thailand) Limited	Thailand	Express business	THB120,000,000	63%	80%
[13]	Kerry Express (Viet Nam) Company Limited	Vietnam	Express services	VND206,000,000,000	100%	100%
[13]	Kerry Far East Logistics (Bangladesh) Limited	Bangladesh	Freight forwarding	BDT10,000,000	70%	70%
[1][3][13]	Kerry FFTZ Warehouse (Shenzhen) Ltd.	PRC	Logistics business	HK$70,000,000	100%	100%
	Kerry Freight (Hong Kong) Limited	HK	Freight forwarding	HK$10,000	100%	100%
				HK$2,750,000[10]		
[1]	Kerry Freight (Korea) Inc.	South Korea	Freight forwarding	KRW500,000,000[9]	100%	75.99%
[13]	Kerry Freight (Senegal) Sarl	Senegal	Freight forwarding	XOF1,000,000	100%	100%
[13]	Kerry Freight (Singapore) Pte. Ltd.	Singapore	Freight forwarding	SGD500,000	75%	75%
[13]	Kerry Freight (USA) Incorporated	US	Freight forwarding	US$1,000,000	51%	51%
[13]	Kerry Freight Myanmar Limited	Myanmar	Freight forwarding	US$100,000	60%	60%
[6][7][13]	Kerry Indev Logistics Private Limited	India	Freight forwarding	INR15,357,400	50%	50%
[13]	Kerry Integrated Logistics (Viet Nam) Co., Ltd	Vietnam	Logistics business	US$7,900,000	100%	100%

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[8]/ registered capital	Interest held indirectly 2018	Interest held indirectly 2017
	Kerry Logistics (Australia) Pty Ltd	Australia	Logistics business	AUD2,000,000	100%	100%
(1)(13)	Kerry Logistics (Bangna) Limited	Thailand	Logistics business	THB500,000,000	100%	100%
	Kerry Logistics (Belgium) BVBA	Belgium	Freight forwarding	EUR36,751,798.81	100%	100%
(13)	Kerry Logistics (Cambodia) Pte. Ltd.	Cambodia	Freight forwarding	KHR96,960,000	100%	100%
	Kerry Logistics (Canada) Inc.	Canada	Freight forwarding	CAD301	95%	75%
(1)(3)(13)	Kerry Logistics (China) Investment Limited	PRC	Investment holding	USD183,200,000	100%	100%
	Kerry Logistics (Germany) GmbH	Germany	Freight forwarding	EUR50,000	100%	100%
	Kerry Logistics (Hong Kong) Limited	HK	Logistics business	HK$10,000,000	100%	100%
(1)(13)	Kerry Logistics (Japan) Limited	Japan	Freight forwarding	JPY100,000,000	100%	100%
(1)(3)(13)	Kerry Logistics (Kunshan) Ltd.	PRC	Logistics business	HK$128,000,000	100%	100%
(13)	Kerry Logistics (Macau) Limited	Macau	Logistics business	MOP100,000	51%	51%
	Kerry Logistics (Oceania) Limited	New Zealand	Freight forwarding	NZD250,000	57.15%	57.15%
	Kerry Logistics (Oceania) Pty. Ltd.	Australia	Freight forwarding	AUD1,000,000	57.15%	57.15%
(13)	Kerry Logistics (Phils.), Inc.	Philippines	Freight forwarding	PHP16,000,000	51%	51%
(1)(3)(13)	Kerry Logistics (Shanghai Waigaoqiao) Co., Ltd.	PRC	Logistics business	HK$44,000,000	100%	100%
(13)	Kerry Logistics (Spain), S.A.U.	Spain	Freight forwarding	EUR120,202	100%	100%
(13)	Kerry Logistics (Sweden) AB	Sweden	Freight forwarding	SEK500,000	100%	100%
(1)(13)	Kerry Logistics (Thailand) Limited	Thailand	Logistics business	THB160,000,000	100%	100%
	Kerry Logistics (UK) Limited	United Kingdom	Freight forwarding	GBP20,000	100%	100%
(3)(13)	Kerry Logistics (Wuxi) Co., Ltd	PRC	Logistics business	HK$125,000,000	100%	100%

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[8]/ registered capital	Interest held indirectly 2018	Interest held indirectly 2017
(3)(13)	Kerry Logistics (Xiamen) Co., Ltd.	PRC	Logistics business	RMB78,000,000	100%	100%
(3)(13)	Kerry Logistics (Zhengzhou) Limited	PRC	Logistics business	RMB50,000,000	100%	100%
(1)(3)(13)	Kerry Logistics Anhui Co., Ltd.	PRC	Logistics business	RMB36,000,000	100%	100%
(13)	Kerry Logistics Centre (Tampines) Pte. Ltd.	Singapore	Logistics business	SGD400,000	100%	100%
	Kerry Logistics Do Brasil – Transportes Internacionais Ltda	Brazil	Freight forwarding	BRL288,487	100%	51%
	Kerry Logistics Engineering Limited	HK	Logistics solution engineering and consultancy services	HK$5,000,000	51%	51%
(13)	Kerry Logistics Management (Asia) Pte. Ltd.	Singapore	Management services	SGD184,000,000	100%	100%
(1)(3)(13)	Kerry Logistics Management (Shanghai) Company Limited	PRC	Supply chain solutions	US$2,000,000	100%	100%
	Kerry Logistics Mexico S.A. de C.V.	Mexico	Freight forwarding	MXN150,000[11] MXN100,000[12]	100%	70%
(13)	Kerry Malship Logistics Lanka (Private) Limited	Sri Lanka	Freight forwarding	LKR32,775,000	51%	51%
	Kerry Medical Limited	HK	Pharmaceutical logistics business	HK$10,000	100%	100%
	Kerry PC3 Limited	HK	Logistics business	HK$1	100%	100%
	Kerry Pharma (Hong Kong) Limited	HK	Pharmaceutical logistics business	HK$500,000	100%	100%
(13)	Kerry Project Logistics (Italia) S.p.A.	Italy	Logistics business	EUR3,000,000	100%	–
(13)	Kerry Project Logistics (Kazakhstan) LLP	Kazakhstan	Logistics business	KZT88,800,000	100%	–
(1)(13)	Kerry Project Logistics (Turkmenistan) ES	Turkmenistan	Logistics business	TMT80,000	100%	–
(13)	Kerry Project Logistics Middle East LLC	UAE	Logistics business	AED500,000	100%	–

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[8]/ registered capital	Interest held indirectly	
					2018	2017
(1)	Kerry Siam Seaport Limited	Thailand	Seaport operation	THB650,000,000	79.92%	79.92%
	Kerry Speedy Logistics Co., Ltd.	Taiwan	Freight forwarding	NTD100,000,000	71.47%	55.47%
(14)	Kerry TC Warehouse 1 (Block A) Limited	BVI, HK	Warehouse ownership	US$1	100%	100%
(14)	Kerry TC Warehouse 1 (Block B) Limited	BVI, HK	Warehouse ownership	US$1	100%	100%
	Kerry TC Warehouse 2 Limited	HK	Warehouse ownership	HK$10,000	100%	100%
(1)(5)(7)(13)	Kerry TJ Logistics Company Limited	Taiwan	Logistics business	NTD4,670,004,980	49.67%	49.67%
	Kerry Warehouse (Chai Wan) Limited	HK	Warehouse ownership	HK$10,000,000	100%	100%
	Kerry Warehouse (Fanling 1) Limited	HK	Warehouse ownership	HK$2	100%	100%
	Kerry Warehouse (Hong Kong) Limited	HK	Warehouse operator	HK$25,000,000	100%	100%
	Kerry Warehouse (Kwai Chung) Limited	HK	Warehouse ownership	HK$30,000	100%	100%
	Kerry Warehouse (Shatin) Limited	HK	Warehouse ownership	HK$10,000,000	100%	100%
	Kerry Warehouse (Sheung Shui) Limited	HK	Warehouse ownership	HK$5,000,000	100%	100%
	Kerry Warehouse (Tsuen Wan) Limited	HK	Warehouse ownership	HK$2	100%	100%
	KerryFlex Supply Chain Solutions Limited	HK	Supply chain solutions	HK$5,000,000	100%	100%
(13)	Kerry-ITS Terminal Pte. Ltd.	Singapore	ISO tank cleaning and repairing	SGD1,800,000	60%	60%
(1)(4)(13)	Lanzhou Pacific Logistics Corporation Limited	PRC	Rail logistics	US$8,600,000	50%	50%
(13)	PT. Kerry Logistics Indonesia	Indonesia	Freight forwarding	US$50,000	90%	90%
	Saison Food Service Limited	HK	Trading business	HK$300,000	95.04%	80.34%

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital(8)/ registered capital	Interest held indirectly	
					2018	2017
(1)(3)(13)	Shanghai Fengjia Warehouse Services Co., Ltd.	PRC	Logistics business	US$40,000,000	100%	100%
(1)(2)(13)	Shanghai Hui Cheng Logistics Co., Ltd.	PRC	Logistics business	RMB30,000,000	100%	100%
(1)(4)	Shanghai TCI Freight Forwarding Co., Ltd.	PRC	Freight forwarding	RMB70,000,000	51%	51%
(1)(2)	Shanghai Wisdom Global Logistics Co., Ltd.	PRC	Freight forwarding	RMB23,000,000	70%	70%
(1)(4)(13)	Shenzhen Kerry Yantian Port Logistics Company Limited	PRC	Logistics business	RMB88,000,000	55%	55%
(13)	Shipping and Airfreight Services (Pty) Ltd	South Africa	Freight forwarding	ZAR100,000	100%	–
	Taishan Insurance Brokers Limited	HK	Insurance brokers	HK$1,000,000	100%	100%
(13)	Taiwan Kerry Investment Company Limited	Taiwan	Investment holding	TWD200,000,000	100%	100%
	Transpeed Cargo (S) Pte. Ltd.	Singapore	Freight forwarding	SGD100,000	75%	75%
	Tuvia Italia S.p.A.	Italy	Freight forwarding	EUR113,005,000	80%	70%
(13)	UTS Logistics Sdn. Bhd.	Malaysia	Express business	MYR500,000	100%	51%
	Wah Cheong Company, Limited	HK	General merchants	HK$15,000,000	100%	100%

There is no non-controlling interest that is individually significant to the Group.

None of the subsidiaries had issued any debt securities outstanding at the end of the year or at any time during the year.

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

(1) *English translation of name only*

(2) *Domestic corporation*

(3) *Wholly foreign-owned enterprise*

(4) *Sino-foreign equity joint venture enterprise*

(5) *Listed company in Taiwan Stock Exchange Corporation. The market value of the Group's investment in Kerry TJ amounted to HK$2,110,000,000 as at 31 December 2018.*

(6) *Companies having a financial accounting period which is not coterminous with the Group*

(7) *Control is obtained by the Group through obtaining power over the investee, exposure or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.*

(8) *All being ordinary shares and fully paid up except otherwise stated*

(9) *Common shares*

(10) *Non-voting deferred shares*

(11) *Fixed capital shares*

(12) *Variable capital shares*

(13) *Companies not audited by PricewaterhouseCoopers*

(14) *Companies incorporated in BVI and operating in HK*

HK *Hong Kong Special Administrative Region*

BVI *British Virgin Islands*

UAE *United Arab Emirates*

DEFINITIONS

"1H" or "2H"	first half or second half
"AGM"	annual general meeting of the Company on Friday, 31 May 2019
"APEX"	a group of 51%-owned US subsidiaries of KLN Investment (US) LLC, an indirect wholly-owned subsidiary of the Company
"Asia"	Asia continent, for the purpose of this annual report only, excludes Greater China
"Belt and Road" or "Belt and Road Initiative"	a development strategy and framework primarily between Mainland China and the rest of Eurasia
"Board"	the board of Directors
"BTS PLC"	Bangkok Mass Transit System Public Company Limited, a company incorporated in Thailand with limited liability
"BTS Skytrain"	The Bangkok Mass Transit System
"Bye-laws"	the bye-laws of the Company, as amended from time to time
"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

"CIS"	the Commonwealth of Independent States
"Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"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
"Dividend Payout Ratio"	the percentage of the Group's core net profit paid to Shareholders as dividends
"ED"	Executive Director
"EMS"	environmental management systems
"ESG"	environmental, social and governance
"Financial Statements"	the audited consolidated financial statements of the Group for the year ended 31 December 2018
"F&B"	food and beverage
"GFA"	gross floor area
"GHG"	greenhouse gas
"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
"GT Programme"	Graduate Trainee Programme
"HK$" or "HKD"	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
"HK (IFRIC) – Int"	Hong Kong (International Financial Reporting Interpretations Committee) – Interpretation
"Hong Kong" or "HKSAR"	Hong Kong Special Administrative Region of Mainland China
"Hong Kong Warehouse"	Hong Kong warehousing business
"Hopemore"	Hopemore Ventures Limited, a subsidiary of KHL
"IFF"	international freight forwarding
"IL"	integrated logistics
"INED"	Independent Non-executive Director
"Kerry Express Thailand"	Kerry Express (Thailand) Limited, a company incorporated in Thailand with limited liability, an indirect 63%-owned subsidiary of the Company.
"Kerry TJ"	Kerry TJ Logistics Company Limited, incorporated under the laws of Taiwan and listed on Taiwan Stock Exchange (stock code: 2608), is a deemed subsidiary of the Company

"KGL"	Kerry Group Limited, one of the Controlling Shareholders of the Company
"KHK"	Kerry Hung Kai Warehouse (Cheung Sha Wan) Limited
"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 of the Company
"LED"	light-emitting diode
"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 annual report only, excludes Hong Kong, Macau and Taiwan
"Majestic"	Majestic Tulip Limited, a subsidiary of KHL
"MeatLab"	The Meat Lab Limited, a company incorporated in Hong Kong, an indirect 51%-owned subsidiary of the Company
"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
"MT Programme"	Management Trainee Programme
"NED"	Non-executive Director

"NGO"	non-governmental organisation
"OHS"	Occupational Health and Safety
"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
"PC^3"	Tai Po Product Customisation and Consolidation Centre
"Post-IPO Share Option Scheme"	post-IPO share option scheme of the Company
"PP&E"	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
"Q2" or "Q4"	second quarter or fourth quarter
"Registers of Members"	registers of members of the Company
"Renminbi" or "RMB"	Renminbi, the lawful currency of Mainland China
"Rubyhill"	Rubyhill Global Limited, a subsidiary of KHL
"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
"Transpeed"	Transpeed Cargo (S) Pte. Ltd., a private company limited by shares incorporated in Singapore, an indirect 75%-owned subsidiary of the Company
"UNICEF"	The United Nations Children's Fund
"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
"YEA"	The Kerry Logistics Young Executives Academy

CORE VALUES OF KERRY LOGISTICS

VOICE

VALUE CREATION WE CREATE REAL VALUE FOR OUR CLIENTS, EMPLOYEES AND SHAREHOLDERS THROUGH INNOVATIVE SOLUTIONS, REWARDING CAREERS AND FINANCIAL GROWTH. **OPENNESS** WE BELIEVE IN TRUE OPENNESS AND TRANSPARENCY THROUGHOUT OUR COMPANY. OUR MANAGEMENT ACTIVELY ENCOURAGES OPEN COMMUNICATION AND DIALOGUE AT EVERY LEVEL OF THE ORGANISATION. **INTEGRITY** OUR BUSINESS IS BUILT ON INTEGRITY. WE FOLLOW CLEAR ETHICAL GUIDELINES AND STRICTLY ENFORCE THEM THROUGHOUT THE COMPANY. **COMMITMENT** AS A SERVICE PROVIDER WE ARE COMMITTED TO THE SUCCESS OF OUR CLIENTS. WE ARE FULLY DEDICATED TO ALL PROJECTS AND ASSIGNMENTS WE TAKE ON. WE ARE ALSO COMMITTED TO OUR EMPLOYEES' CAREER DEVELOPMENT AND TO MEETING SHAREHOLDERS' EXPECTATIONS. **EXCELLENCE** WE BELIEVE IN EXCELLENCE AND PRACTISE A CONTINUOUS PROCESS OF IMPROVEMENT AND INNOVATION.

ANNUAL REPORT 2018

www.kerrylogistics.com

KLN Kerry Logistics Network

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

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