RESILIENCE IN TIMES OF ADVERSITY

ANNUAL REPORT **2019**

KLN

Kerry Logistics Network Limited

0636.HK

QUICK FACTS

55
countries & territories

47,000+
employees worldwide

75M ft^2
land & facilities

10,000+
self-owned operating vehicles

Cover Photo: A 33,000-kg air drum transported from Italy to a refinery in Russia by sea & road freight in 60 days.
(computer-processed image)

CONTENTS

CORPORATE INFORMATION & KEY DATES

BOARD OF DIRECTORS

Executive Directors
Mr KUOK Khoon Hua (Chairman)
Mr MA Wing Kai William (Group Managing Director)
Mr CHEUNG Ping Chuen Vicky
Mr NG Kin Hang

Non-executive Director
Ms TONG Shao Ming

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

AUDIT AND COMPLIANCE COMMITTEE

Ms WONG Yu Pok Marina (Chairman)
Ms TONG Shao Ming
Mr ZHANG Yi Kevin

REMUNERATION COMMITTEE

Ms KHOO Shulamite N K (Chairman)
Mr KUOK Khoon Hua
Mr MA Wing Kai William
Mr YEO Philip Liat Kok
Mr ZHANG Yi Kevin

NOMINATION COMMITTEE

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

FINANCE COMMITTEE

Mr MA Wing Kai William (Chairman)
Mr NG Kin Hang
Ms TONG Shao Ming

RISK MANAGEMENT COMMITTEE

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

COMPANY SECRETARY

Ms LEE Pui Nee

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered PIE Auditor

LEGAL ADVISER

Davis Polk & Wardwell

REGISTERED OFFICE

Victoria Place, 5th Floor, 31 Victoria Street
Hamilton HM 10, 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

Ocorian Management (Bermuda) Limited
(Formerly known as Estera Management (Bermuda) Limited)
Victoria Place, 5th Floor, 31 Victoria Street
Hamilton HM 10, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

INVESTOR RELATIONS

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F 852 2480 5958
E ir@kerrylogistics.com

WEBSITE

www.kerrylogistics.com

KEY DATES

Annual General Meeting
29 May 2020

Closure of Registers of Members
26 to 29 May 2020 and 4 June 2020

Proposed Payment of Final Dividend
18 June 2020

FINANCIAL HIGHLIGHTS

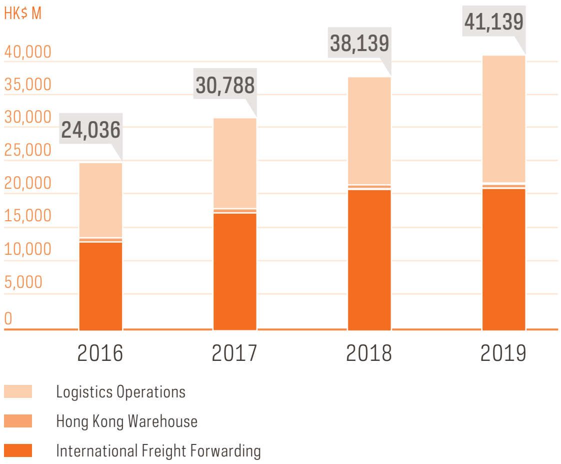
IN HK$M

REVENUE	SEGMENT PROFIT IL	SEGMENT PROFIT IFF
▲ 8%	▲ 15%	▲ 13%
41,139	2,435	622

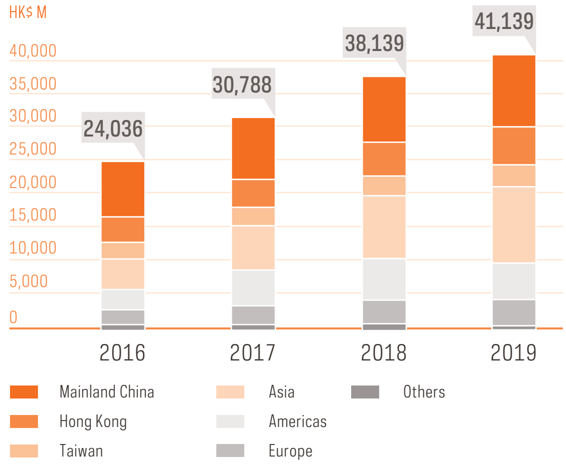
CORE OPERATING PROFIT	CORE NET PROFIT
▲ 17%	▲ 4%
2,765	1,374

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS	FINAL DIVIDEND	GROSS GEARING
▲ 55%	18 HK CENTS PER SHARE	34.6%
3,788		

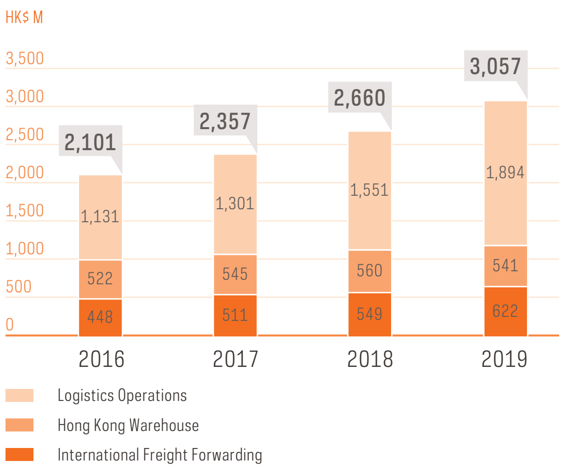
1 REVENUE BY SEGMENT



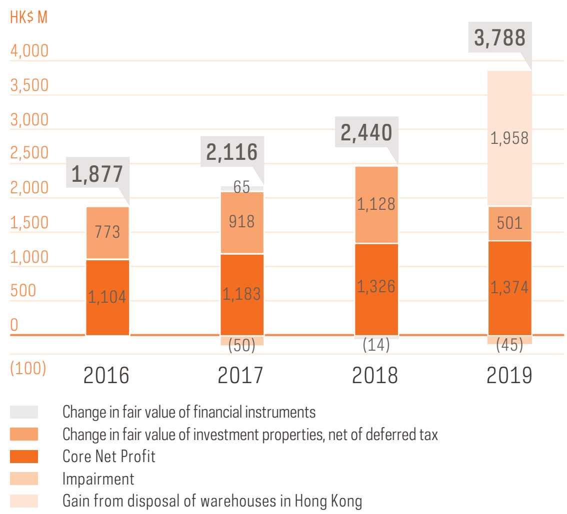
2 REVENUE BY REGION



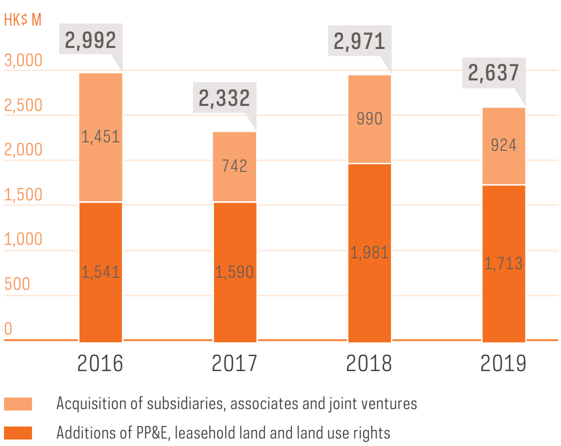
3 SEGMENT PROFIT



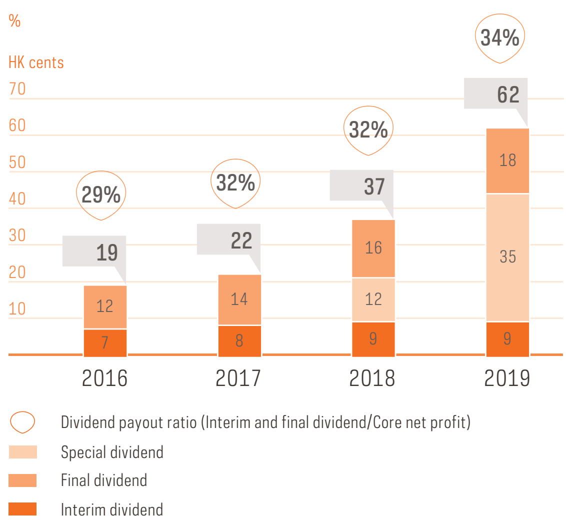
4 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS



5 CAPEX



6 DIVIDEND PER SHARE & DIVIDEND PAYOUT RATIO



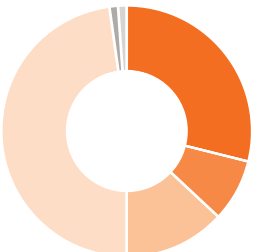
2015 - 2019 FINANCIAL SUMMARY

Income statement	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	41,139,102	38,138,528	30,787,654	24,035,567	21,079,494
Operating profit	5,200,992	3,491,694	3,063,853	2,677,360	2,578,014
Finance costs	(358,171)	(224,245)	(159,825)	(145,209)	(134,650)
Share of results of associates and joint ventures	85,530	110,734	64,784	101,003	103,125
Profit before taxation	4,928,351	3,378,183	2,968,812	2,633,154	2,546,489
Taxation	(588,951)	(506,561)	(469,350)	(397,596)	(401,323)
Profit after taxation	4,339,400	2,871,622	2,499,462	2,235,558	2,145,166
Non-controlling interests	(551,077)	(431,847)	(383,565)	(358,356)	(340,721)
Profit attributable to the Shareholders	3,788,323	2,439,775	2,115,897	1,877,202	1,804,445
Represented by:					
Core net profit	1,374,098	1,326,330	1,183,063	1,104,024	1,060,678
Change in fair value of investment properties, net of deferred tax	501,813	1,127,445	917,834	773,178	743,767
Change in fair value of financial instruments	–	(14,000)	65,000	–	–
Gain on disposal of warehouses	1,957,540	–	–	–	–
Impairment	(45,128)	–	(50,000)	–	–
Profit attributable to the Shareholders	3,788,323	2,439,775	2,115,897	1,877,202	1,804,445

Assets and liabilities	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Non-current assets	32,205,467	28,148,752	25,998,821	22,367,726	19,430,936
Net current assets	6,017,714	2,565,010	1,797,767	3,582,096	2,540,753
Total assets less current liabilities	38,223,181	30,713,762	27,796,588	25,949,822	21,971,689
Long-term liabilities and non-controlling interests	(15,209,832)	(10,670,489)	(9,972,927)	(10,649,919)	(6,542,469)

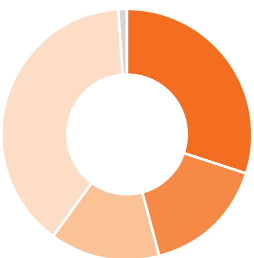
LOGISTICS FACILITIES

1 FACILITIES BY REGION



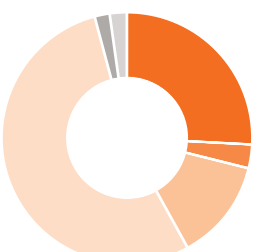
Mainland China	29%
Hong Kong	8%
Taiwan	13%
Asia	48%
Americas	1%
Europe	1%

2 OWNED FACILITIES BY REGION



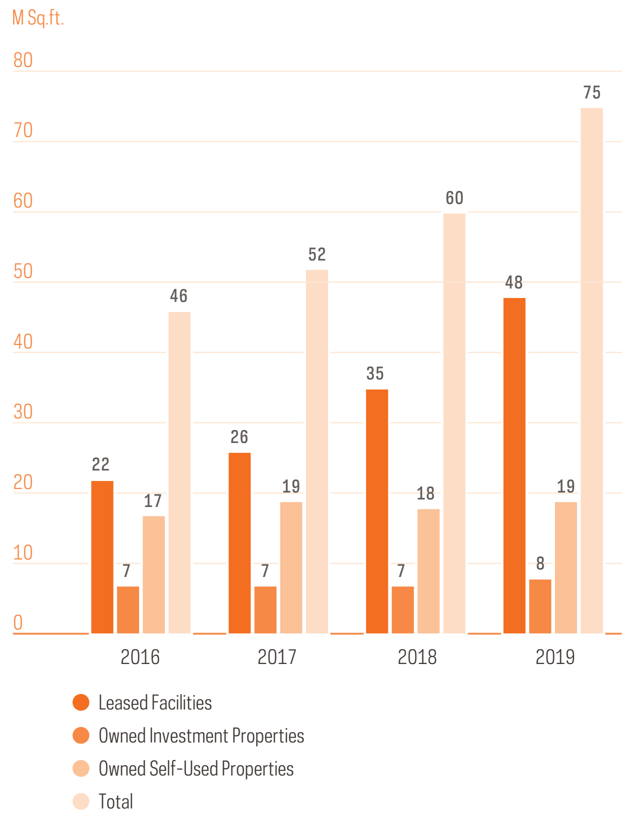
Mainland China	30%
Hong Kong	16%
Taiwan	14%
Asia	39%
Europe	1%

3 LEASED FACILITIES BY REGION



Mainland China	26%
Hong Kong	3%
Taiwan	13%
Asia	54%
Americas	2%
Europe	2%

4 GFA GROWTH



PARTICULARS OF MATERIAL LOGISTICS FACILITIES

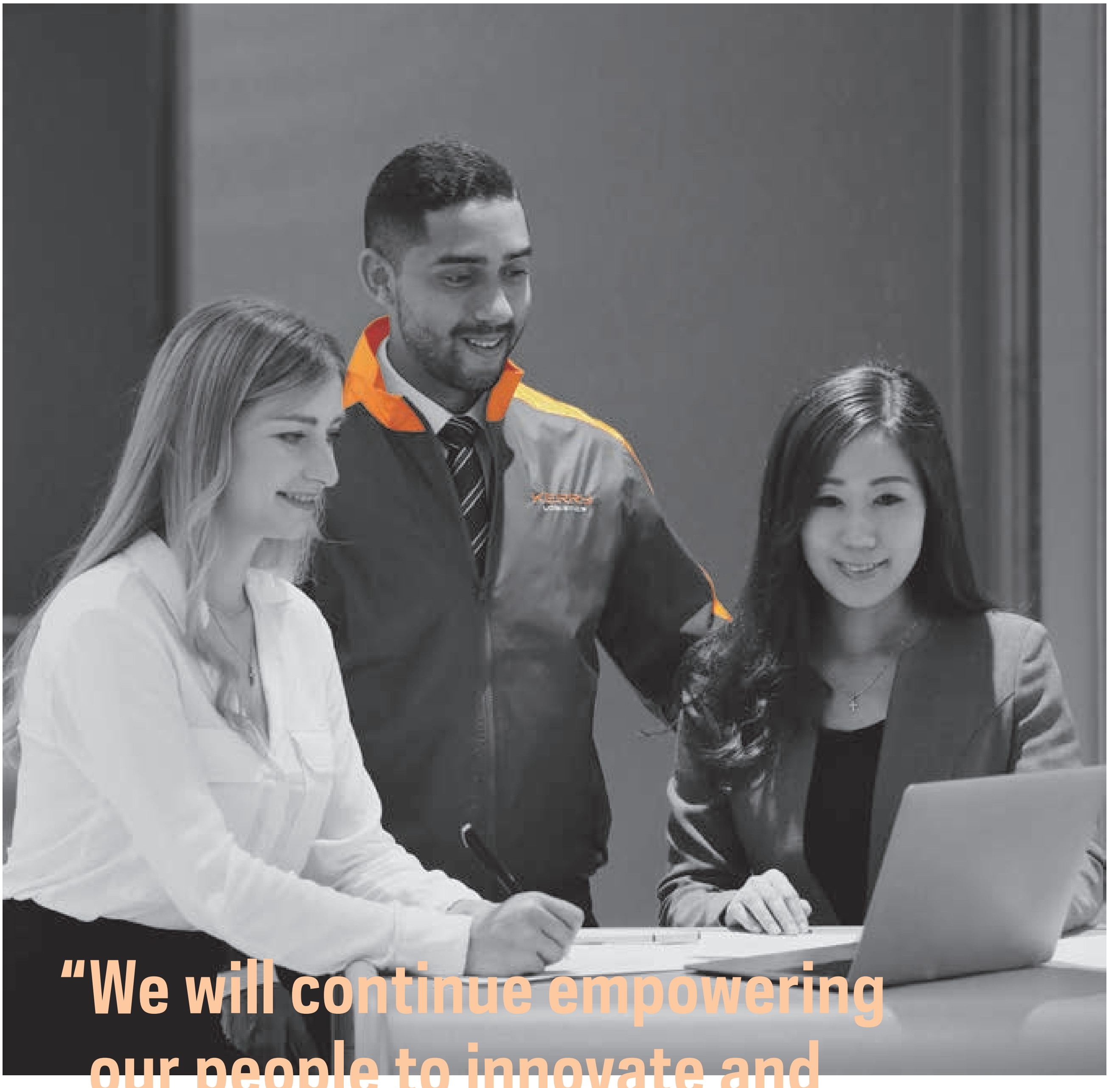
		Usage type	Approximate GFA owned		
			Total (sq.ft.)	Attributable (sq.ft.)	(%)
A.	**Properties classified as Investment Properties**				
1.	**Kerry Cargo Centre** 55 Wing Kei Road, Kwai Chung, New Territories, Hong Kong Kwai Chung Town Lot No. 455	Warehouse	1,443,356	1,443,356	100.0
2.	**Song Than Logistics 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 Wuhan Logistics Centre** East of Hua Xiang Road, North of Shang Mao Da Road, West Lake District, Wuhan East, China	Logistics Centre	629,007	629,007	100.0
5.	**Kerry Changsha Logistics Centre** Jin Xia Economic Development Zone, Changsha, China	Logistics Centre	626,938	626,938	100.0
6.	**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
7.	**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
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.	**Hefei Logistics Centre** 2346 Shi Xin Road, Taohua Industrial Park, Hefei, China	Logistics centre	204,383	204,383	100.0
17.	**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.	**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
6.	**Kerry Wuxi Logistics Centre** No. 2 Xinxiang Road, Wuxi, China	Logistics centre	533,205	533,205	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

		Usage type	Approximate GFA owned Total (sq.ft.)	Attributable (sq.ft.)	(%)
B.	**Properties classified as Warehouse, Logistics Centres and Port Facilities** (continued)				
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
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.	**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
14.	**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
15.	**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
16.	**Kerry Kunshan Logistics Centre Phase 1** No. 118 Yuxi Middle Road, Qiandeng Town, Kunshan, China	Logistics centre	203,990	203,990	100.0
17.	**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

New bonded logistics facility in Dubai Logistics City, Dubai



“We will continue empowering our people to innovate and embrace technology to seize new opportunities in the digital age.”

CHAIRMAN'S STATEMENT

RESILIENCE IN TIMES OF ADVERSITY

It has been an eventful year since I was appointed chairman of Kerry Logistics Network in May 2019. 2019 was a difficult year for many industries including logistics. The protracted US-China trade war, rising protectionism, social unrest in Hong Kong and, more recently, the COVID-19 outbreak have all weighed on the global economy and restrained logistics activities across the globe.

While 2019 has brought its share of challenges, I am pleased to report that Kerry Logistics grew in revenue, core operating profit, and core net profit – while growing its businesses throughout the regions. Hong Kong's economy contracted by 1.2% after half a year of domestic unrest and experienced its first recession since the financial crisis in 2009. Yet our IL business maintained growth in the last twelve months. For the IFF business, we have likewise recorded growth despite the international trade war turbulence. Our new investment in the global industrial project logistics sector has also brought us new streams of revenue.

In this current world of rapid change, we see the need to stay extra alert and flexible in adapting to new challenges. As the COVID-19 pandemic spreads farther, its full impact on the global supply chain and the world economy are still unknown. Therefore we must remain vigilant and ready for a range of scenarios including contingencies for a global downturn. Riding on Kerry Logistics' business and network diversification, we will continue empowering our people to innovate and embrace technology to seize new opportunities in the digital age.

I would like to take this opportunity to thank our former chairman Mr George Yeo for his invaluable leadership during his tenure which has brought Kerry Logistics Network to where we are now. With the continued support of our experienced senior management and industry professionals worldwide, we will take the charge towards our strategic goals and to weather the storms ahead.

KUOK KHOON HUA
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

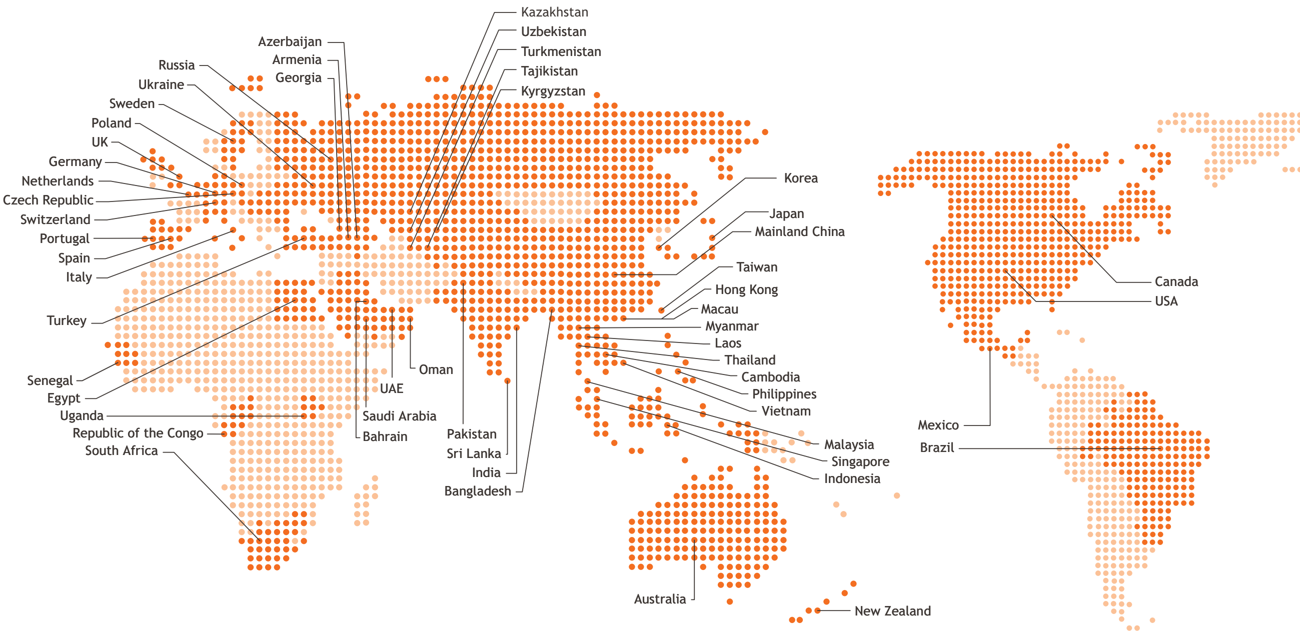
RESULTS OVERVIEW

The Group recorded an increase in revenue of 8% to HK$41,139 million in 2019 (2018: HK$38,139 million). Core operating profit went up 17% to HK$2,765 million (2018: HK$2,364 million). Core net profit also rose 4% year-on-year to HK$1,374 million (2018: HK$1,326 million). Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and financial instruments, impairment, and gain from disposal of warehouses in Hong Kong, increased by 55% to HK$3,788 million (2018: HK$2,440 million).

	2019 HK$ million	2018 HK$ million	
Segment profit			
IL			
– Logistics operations	1,894	1,551	+22%
– Hong Kong warehouse	541	560	-3%
	2,435	2,111	+15%
IFF	622	549	+13%
	3,057	2,660	
Unallocated administrative expenses	(292)	(296)	
Core operating profit	2,765	2,364	+17%
Core net profit	1,374	1,326	+4%
Change in fair value of investment properties, net of deferred tax	501	1,128	
Change in fair value of financial instruments	–	(14)	
Impairment	(45)	–	
Gain from disposal of warehouses in Hong Kong	1,958	–	
Profit attributable to the Shareholders	3,788	2,440	+55%

BUSINESS REVIEW

OUR GLOBAL NETWORK



MARKET OVERVIEW

2019 was a challenging and turbulent year. Global economic growth weakened considerably as international trade disputes dragged on and Mainland China's GDP growth slowed down. Social unrest in Hong Kong further impacted the local economy and affected consumer confidence. The COVID-19 outbreak is causing severe disruptions to production, mobility and the financial markets globally.

The shift in global supply chain in response to trade wars has accelerated the pace of enterprises relocating sourcing and production activities from Mainland China to other Asian countries. Riding on its solid presence and proven track record in Asia, Kerry Logistics assisted its customers to reconfigure their supply chains and provided alternative solutions to help them cope with new scenarios.

Despite the weak product demand and lower productivity worldwide, the Group registered growth in revenue, core operating profit and core net profit again in 2019. Supported by its diversified business portfolio, extensive geographical coverage and broad customer mix, the Group was able to achieve positive growth across all regions with double-digit percentage increase in its segment profit.

IL PROFIT GREW

Building on a wide-ranging customer mix across various industries, in addition to improved cost efficiency in Mainland China, the Group's IL division recorded a 15% segment profit growth in 2019.

HONG KONG BUSINESS RESILIENT

Although Hong Kong was gripped by social events in 2019 2H that negatively affected in particular the retail section, the Group's business in the city reported a 6% growth. The segment profit of the Hong Kong logistics operations rose by 23% on the back of a resilient business model, rise in e-commerce business as well as new customer wins in the F&B, pharmaceutical and general services verticals. The Hong Kong warehousing business dropped 3% as a result of the sale of two warehouses in June 2019.

MAINLAND CHINA RESTRUCTURED

The repositioning and restructuring of the Group's Mainland China operations earlier has borne fruit as segment profit of its IL business recorded a rise of 22%. The recovery was driven by increased business in the cold chain logistics operation, addition of new customers in the electronics, fast-moving consumer goods, industrial and fashion industries as well as cost savings through enhanced cost efficiency of the ground transportation network throughout the country.

TAIWAN SURGE MAINTAINED

The Group's IL business in Taiwan registered a 19% growth in segment profit in 2019, benefitted from the repatriation of semiconductor manufacturers from Mainland China and new business contributed by Science Park Logistics which is one of the leading service providers in high-tech, bonded logistics in Taiwan. The increased cold chain and pharmaceutical logistics businesses also provided momentum to the profit growth.

ASIA GROWTH MODERATED

Segment profit in Asia increased by 22% in 2019, supported by the strong performance of the Thailand operation. The extent of increase should have been larger if not for the Group's ongoing financing of the Kerry Express operations in Malaysia, Vietnam and Indonesia amounting to HK$70 million.

IFF GROWTH SUSTAINED

Riding on the booming intra-Asia trade, the Group's IFF division recorded strong growth in the first ten months in 2019. However, growth weakened in the last two months of the year and dragged the overall performance down, resulting in only a 13% increase in segment profit, contributing 20% to the total segment profit.

Kerry Logistics was 5th on the Top 10 Freight Forwarders in Hong Kong ranking released by IATA for January 2020. In the global ranking published by Armstrong & Associates, Inc. for 2019, Kerry Logistics was 11th among the Top 25 Global Freight Forwarders.

GROWTH ACROSS KEY REGIONS

Majority of the regions recorded growth except Taiwan. The major contribution came from Mainland China which registered a 23% growth. Despite the ongoing trade wars, the IFF business in the Americas reported increase in profit as a result of frontloading by customers to get goods from Mainland China to the US.

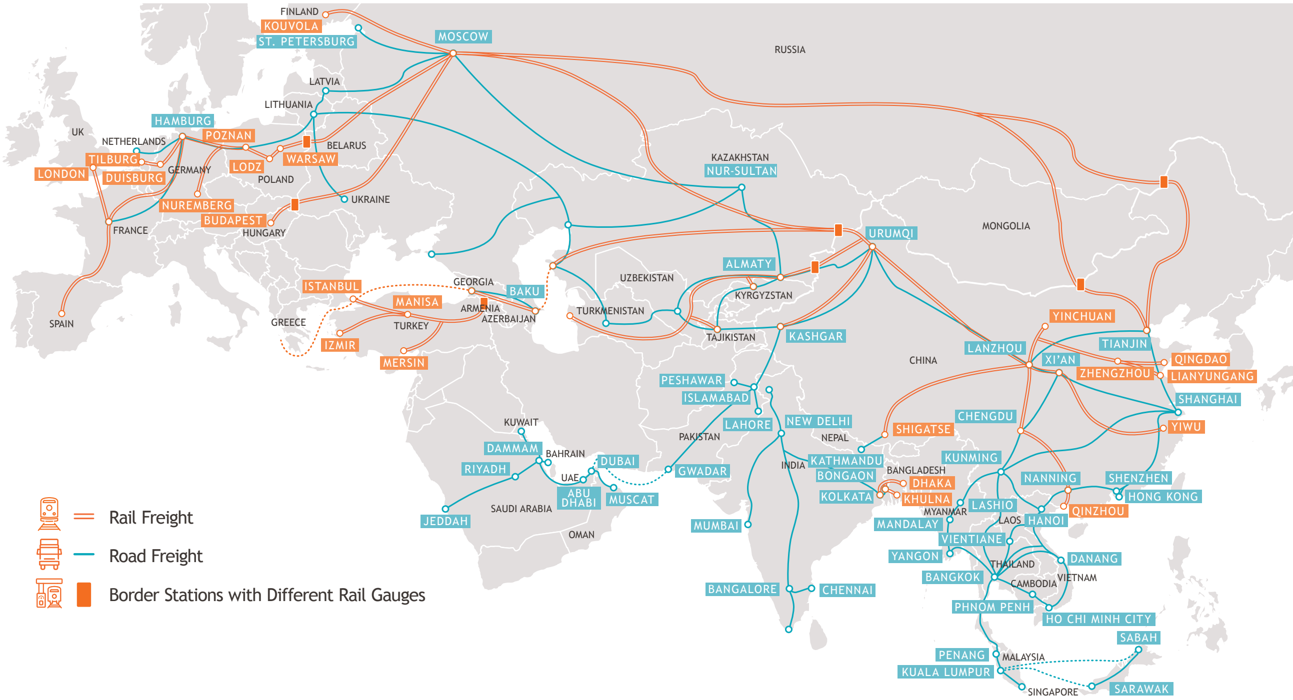
PROJECT LOGISTICS SET TO GO

The successful consolidation of its industrial project logistics services and overland rails worldwide allowed the Group to tap into new markets beyond its traditional customers in the consumer products industry, which is slowing down. The Group is now equipped and ready to capitalise on the project logistics sector's promising prospects and rising demand.

CAPABILITY IN TURKEY STRENGTHENED

In August 2019, the Group acquired a majority interest in Turkey's ASAV Logistics Services Inc. to further the expansion of its global network. The acquisition helped the Group to gain a major foothold in Turkey and further consolidate its network and air freight capabilities in the EMEA region.

EURASIAN RAIL & ROAD FREIGHT NETWORK



LOGISTICS FACILITIES EXPANDED

In the United Arab Emirates, the 70,000-square-feet bonded logistics facility commenced operation in Dubai in 2019 Q4.

In Mainland China, construction of the 827,000-square-feet logistics centre in Qingdao is expected to complete in 2021 Q2, and the 646,000-square-feet logistics centre in Guangzhou is projected for completion in 2021 Q4.

In Taiwan, the 430,000-square-feet logistics centre in Guanyin is expected to resume operation in 2021 Q3 after restoration from the fire in February 2019 is completed.

ASSET OPTIMISATION AS PLANNED

The Group completed the disposal of two Hong Kong warehouses in 2019 at a total gain of approximately HK$2 billion. Going forward, the Group will continue to review and adjust its plan according to changing economic conditions.

OUTLOOK

The global COVID-19 outbreak is creating a business and financial tsunami. As of today, most developed countries have implemented stay-at-home orders and some are considering substantial border restrictions, including shutting down ports and limiting exports. An already broken global supply chain further fragments while the demand for the majority of consumer products rapidly collapses, creating a devastating impact on global trade flows and transportation.

As the world switches to a more domestic-based supply chain for daily essentials, the Group is in a relatively secure position to accommodate the changing conditions, riding on its strong exposure in the domestic markets of Mainland China, Hong Kong, Taiwan, Thailand and other Asian countries. The Group is less impacted by the global lockdown.

It is expected that when the pandemic comes under control, the global supply chain will be in massive chaos. Nonetheless, the Group is confident that it will be able to leverage its extensive geographical coverage, solid presence in various markets and diversified business segments to continue serving its customers well and generating positive returns for the Shareholders.

SPIN-OFF AND SEPARATE LISTING OF KERRY EXPRESS THAILAND

The spin-off and separate listing of Kerry Express Thailand on the Stock Exchange of Thailand is currently in progress. On 28 February 2020, Kerry Express Thailand submitted the listing application to The Securities and Exchange Commission of Thailand. Given that in Thailand a state of emergency has taken effect and will remain in force until 30 April 2020, delay in the listing process is expected.

APEX ACQUISITION COMPLETED

On 31 March 2020, the Group completed the acquisition of the remaining 49% in Apex, the third largest NVOCC in terms of volume from Asia to the US in 2019, at a consideration of approximately US$176 million, satisfied by 30% in cash and 70% in the newly issued Shares. The acquisition represents a continuation of the Group's strategy to grow its business organically in the US.

CAPTURE EMERGING MARKET GROWTH POTENTIAL

Building on its established presence in emerging economies, Kerry Logistics will continue capturing the considerable growth potential of these countries and other new markets through expanding its strategic footprint and strengthening its service offerings.

FINANCIAL REVIEW

The Group has centralised financing policies which apply to all business units within the network. The policies are reviewed on a periodical basis along with the change in market situation and financial position of the Group.

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 2019, total foreign currency borrowings amounted to the equivalent of HK$5,337 million (including HK$3,005 million denominated in New Taiwan Dollar and HK$666 million denominated in Thai Baht), which represented approximately 66% of the Group's total bank loans of HK$8,122 million.

Out of the Group's total bank loans as at 31 December 2019, HK$1,948 million (representing approximately 24%) was repayable within one year, HK$2,982 million (representing approximately 37%) in the second year, HK$3,075 million (representing approximately 38%) in the third to fifth years and HK$117 million (representing approximately 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 87% of total bank loans. In relation to the secured bank loans of

HK$1,020 million as at 31 December 2019, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK$2,867 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 2019, the gearing ratio for the Group was 34.6% (31 December 2018: 45.7%). 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 2019, the Group had total undrawn bank loan and overdraft facilities of HK$11,801 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 2019, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 31 December 2019, the Group had approximately 47,200 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 2019. The scope of this report covers major operations in the Group's IL, IFF, express delivery, supply chain solutions, industry solutions and F&B trading. The report is prepared in accordance with the ESG Reporting Guide under Appendix 27 to 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 anti-corruption, 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 value for our stakeholders.

Value Creation

People	Customers	Supply Chain	Anti-corruption	Community	Environment
Recruiting & Retaining Talents	Striving for Service Excellence	Optimising Collaboration with Suppliers	Enforcing Anti-corruption	Engaging in Youth Development	Driving Continuous Improvement
Promoting Health, Safety & Wellbeing	Implementing Innovation	Alerting on Supply Chain Risks	Stating Clear Whistleblowing Policy	Supporting the Underprivileged	Saving Energy & Managing GHG Emissions
Continuing Development & Training	Enhancing Customer Experience	Fulfilling ESG Standards	Zero Tolerance for Unethical Practices or Conduct	Participating in Environmental Conservation	Reusing & Recycling Waste
Upholding Labour Standards	Ensuring Information Security				Reducing Water Use
					Incorporating Eco-design in Logistics Facilities

Commitment to Regulatory Compliance

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 a leading logistics service provider in Asia, we acknowledge the significance of effective sustainability practices and are actively integrating ESG systems in key business decisions. The Board has overall responsibility for our ESG strategy and reporting. In line with the ESG Reporting Guide, 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 2019.

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 feedbacks 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

*Our Integrated Management System Committee ("IMS Committee") has been established to identify, assess and manage various risks across our operations related to OHS, quality, environmental and supply chain security.

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.

SUSTAINABILITY ASSESSMENT

The Company participated in Green Council's sustainability assessment which aims to evaluate organisation's sustainability strategies and policies, and their ability in managing and driving performance in sustainability. Based on the results from the assessment, the Company has achieved an overall rating of B+, representing a satisfactory performance in managing its sustainability practices across strategy and reporting, governance, social and environmental aspects. The Company has developed a systematic and effective sustainability practices.

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.

YEA, established in 2001, has been supporting our strategic growth by grooming high-calibre talent. 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 2019, we recruited 2 management associates, 9 management trainees, 21 graduate trainees and 14 interns from seven countries originating from YEA. In addition, a total of 30 interns from Hong Kong were recruited through other internship 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. In Thailand, we employed people with disabilities to work including visually impaired people to provide massages for our employees.

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.

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 IMS Committee has been established to identify, assess and manage various risks across our operations related to OHS, quality, environmental and supply chain security. The IMS system consists of quality, environmental, OHS, and security elements. We have set up and implemented a health and safety management system in line with international standards such as the OHSAS 18001. Our Standard Operating Procedures provide 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. Furthermore, advanced training courses, such as the certificate in first aid, cardiopulmonary resuscitation and automated external defibrillator, were provided throughout the year. There were a total of 39 newly certified first aiders in 2019.

Emotional health of employees has always been top of the agenda in the Group. Workshops were held for employees on the management of stress and mental wellbeing in the workplace. 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 is expected, managed and monitored. For instance, only designated and trained staff are assigned to handle dangerous goods. In Taiwan, the development of Vision-based Driver Assistance System (VDA), which can enhance driver safety, is currently in progress. Mobile digital video recorders (MDVR) are installed in trucks in response to government initiatives to reduce the number of traffic accidents. This helps to reduce blind spots as drivers have a widened field of view, and enhanced side and rear vision. In addition, our trucks are equipped with GPS trackers, accelerometers, network connectivity sensors and temperature sensors. With such fleet management capabilities, supervisors can remotely monitor the speed and temperature of trucks and perform route tracking. Inappropriate behaviour such as speeding, stopping abruptly and making sharp turns can be easily detected. Through various system enhancements, we aim to protect both passengers and drivers through improved route efficiency and road safety.

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.

CONTINUING 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 of diversified training curriculum, which covers personal, leadership and service excellence, as well as safety and wellness. We support the all-rounded development of our staff and gear them up with up-to-date knowledge and skills to enhance the quality of service delivered at work.

UPHOLDING 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 had 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 operations.

REGULATORY COMPLIANCE

The Group recognises the importance of regulatory compliance and has established preventive and monitoring measures to ensure compliance of relevant laws and regulations. The Group stays abreast of latest regulatory developments and will provide relevant trainings for relevant personnel. 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.

STRIVING FOR 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, F&B, 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 Transported Asset Protection Association, we have also been maintaining the ISO22000 food safety management and HACCP certifications for our F&B business unit.

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 earned the title of "Asian 3PL of the Year" for the sixth time in Supply Chain Asia Awards 2019, awarded by the Supply Chain Asia Magazine for our outstanding contributions in serving the world's top brands in the field of supply chain and logistics. We were also regarded as the "Outstanding Global 3PL" at the Quamnet Outstanding Enterprise Awards 2019 for the fifth consecutive year in recognition of our contribution to the logistics industry.

The Group's continuous ESG efforts are evidenced by the awards obtained during the year. Kerry Logistics has secured the Platinum Award, the highest honour of The Asset ESG Corporate Awards 2019, for the second consecutive year and the Best Investor Relations Team Award for the first time. The said awards are the longest running and the most prestigious ESG awards programme in Asia. Furthermore, Kerry Logistics received the ESG Leading Enterprises 2019 award organised by Bloomberg Businessweek and the Junzi Corporation Award 2019 presented by the Hang Seng University of Hong Kong during the year, in recognition of the Group's adherence to the highest standards of business ethics. 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 34
Awards and Citations →

IMPLEMENTING INNOVATION

In the pursuit of embracing technology, we have collaborated with a technology giant to establish a fully autonomous smart warehouse in Xiamen, bringing together artificial intelligence and robotics technologies to improve the efficiency of our operations and reduce manpower requirements and costs in Mainland China.

With the growth of the logistics market, Kerry Logistics brings the Internet of Things (IoT) to the forefront of our operations by introducing smart sensors to international shipments, enabling total supply chain visibility and sophisticated security measures. Data can be provided to international customers for agile decision making and thus achieving supply chain optimisation with real-time information made available on the digital supply chain.

The Group continues its commitment to technological innovation, as demonstrated by its first Hackathon organised in February 2019. Competitors incorporated innovative technological solutions such as autonomous drone navigation and computer vision in their bid to realise the theme of "Drone Warehouse Stocktaking". Proposals to adopt advanced technologies such as Radio Frequency Identification (RFID) and Light Detection and Ranging (LIDAR) have also been presented. The event is a testimony to Kerry Logistics' dedication to motivating innovation and harnessing creativity as it stepped up to the demands of the digital age.

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, as well as the remaining time and 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. Furthermore, the ePOD system enables paperless operations and helps to reduce paper usage.

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 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.

ENSURING INFORMATION SECURITY

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 to ensure that information assets are kept in a secured manner. 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

The Group is committed to complying with laws and regulations through the provision of relevant preventive and monitoring measures. In 2019, we were not aware of any incidents of non-compliance with laws and regulations that could have a significant impact on the Group concerning product responsibility.

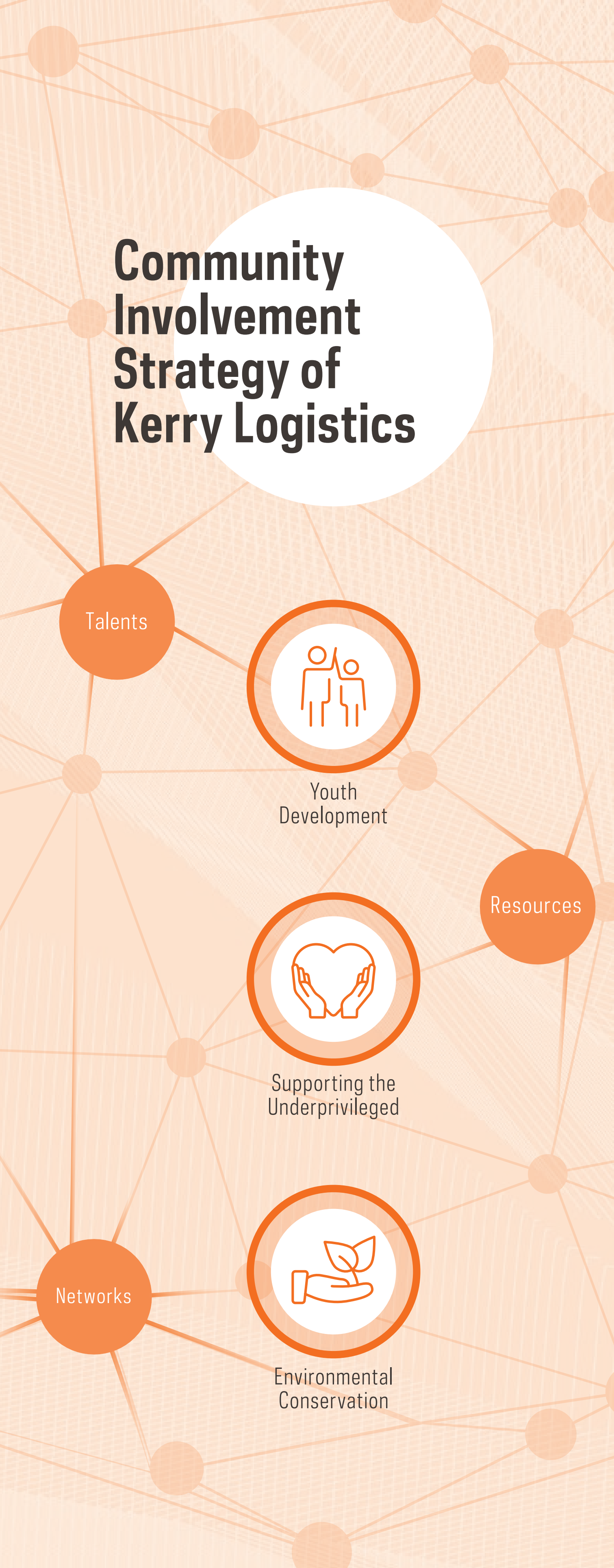
VALUE CREATED FOR OUR SUPPLY CHAIN

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 55 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 pre-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 OHS 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 2019, over 700 suppliers of our headquarters in Hong Kong have gone through our performance evaluation and more than 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 rights 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. For example, in Mainland China, we actively communicate with our suppliers on existing industry regulations related to the use of vehicles, replacement of vehicles to models with improved emissions, service quality, as well as adoption of electric vehicles.

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

As mentioned above, regulatory compliance is a high priority for the Group. The Group has established preventive and monitoring measures to ensure compliance of laws and regulations related to anti-corruption. 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 2019, our headquarters in Hong Kong raised funds and contributed employee volunteering hours to support community initiatives run by different charitable organisations. The Group has received the "5 Years Plus Caring Company Logo" from the Hong Kong Council of Social Service (HKCSS), highlighting our efforts to promote corporate social responsibility by fulfilling the criteria of caring for the community, caring for employees and caring for the environment. It also exemplifies the endeavours and contributions that we have made to the society over the years.

ENGAGING IN 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 engaged our employees to participate in various charitable activities, including the Greening for the Chest fund raising programme, Hong Kong Disneyland 10K Weekend running race, Kids4Kids annual donation campaign etc.

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 Mainland China. Book and clothing donation activities have been organised for the underprivileged living in Southern Xinjiang. A total of 236 books and 1,307 pieces of clothing were donated. We also provide free cold storage and distribution services to facilitate the supply of fresh and perishable food for families in need in Taiwan. We have also gifted more than 4,000 packs of chocolate during Halloween to different charity groups, such as orphanages, shelters and nursing homes in Taiwan.

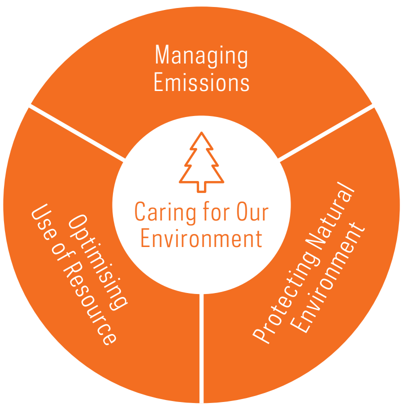
We are a supporter of a number of non-profit and charitable organisations aiming to improve the wellbeing of the underprivileged. Our involvement includes monetary support, participation in community and charitable events, and in-kind support for community events, such as Race for Water, Hong Kong Marathon – Corporate Challenge, as well as the "Shoes for Africa" charity programme in Taiwan during the year.

PARTICIPATING IN ENVIRONMENTAL CONSERVATION

We believe that a good corporate citizen should take up the responsibility of building a greener and more sustainable community. 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 for consecutive years. We also promote environmental awareness by planting trees in Mainland China, with our Yantai Branch planting trees on barren hills in the suburbs for five consecutive years. We also co-ordinated voluntary clean-up events in Yangtze River to put environmental conservation into action. In Mainland China, we strictly follow our internal guidelines to avoid providing logistics services related to nationally protected animals. In Thailand, over 200 employees have supported the community to grow forests on the mountains and clean public roads nearby. In Germany, Kerry Logistics (Germany) GmbH was awarded the Silver medal by the business sustainability ratings' service provider EcoVadis.

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 an established EMS accredited to the ISO14001 standard and implemented at the business unit level in Hong Kong, Mainland China and Singapore.

At our headquarters in Hong Kong, we have set up an IMS Committee comprised of Group Managing Director and heads of key departments and business units to steer environmental initiatives. As part of the EMS, the IMS Committee operates an "Annual Improvement Programme" with an aim to monitor, improve and communicate environmental performance as well as the impact of climate change on 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 282 commercial vehicles, with all of them being Euro IV or more efficient models. We continue to deploy three hybrid trucks for logistics projects, as a participant of 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 for the local public transport sector and goods vehicles.

We also reduce GHG emissions through procuring and using energy efficient devices and installations. Our headquarters continue to 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 two more warehouses and have replaced over 2,400 light tubes.

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 in early 2021. In Mainland China, we are committed to choosing eco-efficient air conditioning during our procurement stages to reduce the use of electricity and refrigerants. A new air conditioner will not require additional refrigerants for 6 to 10 years.

Renewable energy is introduced in our operations to lower our business carbon footprint. As a participant of the Feed-in Tariff (FiT) Scheme launched by the HKSAR Government, we installed solar panels on the rooftop of one of our buildings in Hong Kong. The solar photovoltaic system will be connected to the power company's main power grid and will be effective starting early 2020. In addition, 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. Similar solar panel installation efforts were also underway for nine logistics centres in Taiwan, which will provide approximately 3,000,000 kW of electricity in 2020 and reduce nearly 3,000 kg of carbon emissions every year.

REUSING AND RECYCLING WASTE

To promote responsible material use and waste management practices, we encourage our employees to reduce excessive packaging and 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.

In response to the State Post Bureau's call to collectively implement a recycling system for logistics packaging in Mainland China, our warehouses actively reduce excessive packaging and procure packaging materials according to national green packaging standards. Similarly, recycled materials are also used to produce packaging boxes for our business in Thailand.

In order to reduce the environmental impact of food residue produced from our Tai Po food production plant in Hong Kong, we participated in the Food Waste/Sewage Sludge Anaerobic Co-digestion Trial Scheme launched by the Environmental Protection Department of the HKSAR Government. Approximately three tonnes of food waste is separated, collected and delivered to the facility on a daily basis.

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 addressing 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

As mentioned above, the Group has in place preventive and monitoring measures to ensure 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 2019.

For details about our environmental performance, please refer to the data table headed "Environmental Data of the Group for the Year ended 31 December 2019" on page 32 of this annual report.

ENVIRONMENTAL DATA OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2019

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

With respect to significant business expansion of the Group's business in Thailand through Kerry Express (Thailand) Public Company Limited and Kerry Siam Seaport Limited, both NO_x and PM emissions have increased in 2019 and 2018.

		Environmental Data (Group)		
Environmental Data	Unit	2019	2018	2017
Total direct energy consumption intensity (Note 1)				
By revenue	**kWh/Revenue (HKD '000)**	**24.19**	**21.10**	**18.22**
Total indirect energy consumption intensity (Note 2)				
By revenue	**kWh/Revenue (HKD '000)**	**3.01**	**3.10**	**4.13**
Water consumption intensity (Note 3)				
By revenue	**m^3/Revenue (HKD '000)**	**0.01**	**0.01**	**0.02**
Total packaging material intensity (Note 4)				
By revenue	**tonne/Revenue (HKD billion)**	**189**	**161**	**260**
Note 1 Nitrogen Oxides (NO_x) emissions	tonne	2,300	1,500	450
Sulphur Oxides (SO_x) emissions	tonne	1.5	1	1
Particulate Matter (PM) emissions	tonne	184	123	41
Total greenhouse gas (GHG) emissions	tonne CO_2e	350,000	306,000	284,000
Scope 1 – Direct emissions and removals	tonne CO_2e	280,000	241,000	200,000
Scope 2 – Energy indirect emissions	tonne CO_2e	70,000	65,000	84,000
Total hazardous waste produced	tonne	53	50	58
Total non-hazardous waste produced	tonne	18,400	21,000	19,000
Total energy consumption	kWh	1,118,808,000	922,964,000	688,186,000
Total direct energy consumption	kWh	995,115,000	804,606,000	560,933,000
Gasoline/Petrol	kWh	31,036,000	26,137,000	19,458,000
Diesel	kWh	957,466,000	771,530,000	533,958,000
Liquefied Petroleum Gas (LPG)	kWh	6,613,000	6,939,000	7,517,000
Note 2 Total indirect energy consumption	kWh	123,693,000	118,358,000	127,253,000
Purchased electricity	kWh	123,508,000	118,176,000	127,097,000
Towngas/Gas works gas consumption	kWh	185,000	182,000	156,000
Note 3 Water consumption	m^3	480,000	484,000	507,000
Note 4 Total packaging material	tonne	7,800	6,128	8,010

Race For Water 2019, Hong Kong

AWARDS AND CITATIONS

CORPORATE ACCOLADES

- **PLATINUM AWARD**
- **BEST INVESTOR RELATIONS TEAM**

THE ASSET ESG CORPORATE AWARDS 2019

LISTED ENTERPRISES OF THE YEAR 2019

BLOOMBERG BUSINESSWEEK – LISTED ENTERPRISES OF THE YEAR AWARDS

CERTIFICATE OF EXCELLENCE

BLOOMBERG BUSINESSWEEK – ESG LEADING ENTERPRISES 2019

OUTSTANDING GLOBAL 3PL

QUAMNET OUTSTANDING ENTERPRISE AWARDS 2019

- **BEST IR BY CFO – ELLIS CHENG**
- **BEST IR COMPANY**
- **BEST INVESTOR MEETING**

5TH INVESTOR RELATIONS AWARDS 2019 (MID CAP)

- **JUNZI CORPORATION AWARD 2019**
- **CORPORATE GOVERNANCE AWARD 2019**

THE HANG SENG UNIVERSITY OF HONG KONG – JUNZI CORPORATION AWARD 2019

INDUSTRY RECOGNITION

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

2019 FROST & SULLIVAN ASIA PACIFIC BEST PRACTICES AWARDS

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

2019 ASIAN FREIGHT, LOGISTICS & SUPPLY CHAIN AWARDS

- **ASIAN 3PL OF THE YEAR**
- **SUPPLY CHAIN INNOVATION OF THE YEAR (SMART LOGISTICS)**

SUPPLY CHAIN ASIA AWARDS 2019

- **BEST CUSTOMER SERVICE (CALL CENTRE)**
- **BEST IMPROVEMENT AWARD**

E-COMMERCE DELIVERY AWARDS 2019

- **2018 TOP 100 CHINA COLD CHAIN LOGISTICS ENTERPRISES**
- **2019 CHINA COLD CHAIN ANNUAL GROWING ENTERPRISE**

COLD CHAIN LOGISTICS COMMITTEE OF CHINA FEDERATION OF LOGISTICS & PURCHASING

- **FREIGHT FORWARDER OF THE YEAR (MULTICARGO)**
- **CONTAINER FREIGHT STATION OPERATOR OF THE YEAR (PRIVATE) – CONTAINERISED**
- **CUSTOMS BROKER OF THE YEAR**

THE 11TH SOUTH EAST CARGO & LOGISTICS AWARDS 2019

COMMENDATIONS FROM CUSTOMERS AND PARTNERS

BEST TRANSPORTATION COMPANY 2018

CANON

10 YEARS OF OUTSTANDING PARTNERSHIP

MIELE

BEST LOGISTICS SERVICE PROVIDER 2018

BOSCH

EXCELLENT PARTNER 2019

BSH HOME APPLIANCES

OUTSTANDING PERFORMANCE ON SINGLES' DAY OF THE YEAR 2019

CAINIAO

EXCELLENT LOGISTICS AWARD 2019

AMWAY

Kerry Logistics has a total of 74 wins, from corporate accolades, industry recognition to commendations from customers and partners

LOCATION	AWARD	ORGANISER
CORPORATE ACCOLADES		
Hong Kong	The Asset ESG Corporate Awards 2019 ▪ Platinum Award ▪ Best Investor Relations Team	The Asset Magazine
	Listed Enterprises of the Year 2019	Bloomberg Businessweek
	ESG Leading Enterprises 2019: Certificate of Excellence	Bloomberg Businessweek
	Quamnet Outstanding Enterprise Awards 2019: Outstanding Global 3PL	Quamnet
	Asia's Most Honored Companies 2019	Institutional Investor
	2019 All-Asia Executive Team annual ranking (Sell-side, Transportation Sector) ▪ Best CEO – William Ma ▪ Best CFO – Ellis Cheng ▪ Best Investor Relations	Institutional Investor
	5th Investor Relations Awards 2019 (Mid Cap) ▪ Best IR by CFO – Ellis Cheng ▪ Best IR Company ▪ Best Investor Meeting	Hong Kong Investor Relations Association
	Hang Seng Corporate Sustainability Index Series: Member 2019/2020	Hang Seng Indexes Company Limited
	Junzi Corporation Award 2019 Corporate Governance Award 2019	The Hang Seng University of Hong Kong
	Caring Company 2019/2020	The Hong Kong Council of Social Service
Thailand	2019 Thailand's Most Admired Brand	BrandAge Magazine
	Thailand Headlines Person of the Year Awards 2019 Awardee: Alex Ng, CEO of Kerry Express Thailand	Thailand Headlines
US	2018 Vision Awards: Annual Report Competition Bronze Award (Transportation & Logistics)	League of American Communications Professionals
	2019 International ARC Awards Honors Winner: Interior Design – Logistics Services/Enterprises	MerComm, Inc.
United Kingdom	The International Annual Report Design Awards 2019 Annual Report 2018 (Transportation & Logistics) ▪ Gold Winner: Typography ▪ Gold Winner: Interior Design ▪ Silver Winner: Photography ▪ Bronze Winner: Cover Design	IADA International Limited
Taiwan	Outstanding Anti-Drugs Company 2019 – First runner up	Taiwan Food and Drug Administration, Health Promotion Administration, Ministry of Health and Welfare & Taipei Medical University

LOCATION	AWARD	ORGANISER
INDUSTRY RECOGNITION		
Singapore	2019 Frost & Sullivan Asia Pacific Best Practices Awards ▪ Asia-Pacific Logistics Service Provider of the Year ▪ Asia-Pacific Road Freight Service Provider of the Year	Frost & Sullivan
	2019 Asian Freight, Logistics & Supply Chain Awards ▪ Best 3PL ▪ Best Logistics Service Provider – Air Freight	Asia Cargo News Magazine
	Supply Chain Asia Awards 2019 ▪ Asian 3PL of the Year ▪ Supply Chain Innovation of the Year (Smart Logistics)	Supply Chain Asia Magazine
US	Armstrong & Associates' Ranking (published in 2019) ▪ Top 50 Global 3PLs – Ranked No 23 (ranked by 2018 logistics gross revenue/turnover) ▪ Top 25 Global Freight Forwarders – Ranked No 11 (ranked by 2018 logistics gross revenue/turnover & freight forwarding volumes)	Armstrong & Associates, Inc.
	Transport Topics' Top 50 Logistics Ranking (published in 2019) ▪ Top 50 Ocean Freight Forwarders – Ranked No 7 (ranked by 2018 freight forwarding volumes) ▪ Top 50 Air Freight Forwarders – Ranked No 16 (ranked by 2018 freight forwarding volumes)	Transport Topics & Armstrong & Associates, Inc.
Malaysia	E-Commerce Delivery Awards 2019 ▪ Best Customer Service (Call Centre) ▪ Best Improvement Award	Malaysian Communications and Multimedia Commission
Mainland China	2018 Top 100 China IFF & Logistics Enterprises ▪ Ranked No 17 in Air Freight Gross Revenue ▪ Ranked No 27 in Ocean Freight Gross Revenue ▪ Ranked No 11 in Logistics Gross Revenue ▪ Ranked No 10 in Warehousing Gross Revenue	China International Freight Forwarders Association and International Business Daily
	2018 Top 100 China Cold Chain Logistics Enterprises	Cold Chain Logistics Committee of China Federation of Logistics & Purchasing
	2019 China Cold Chain Annual Growing Enterprise	Cold Chain Logistics Committee of China Federation of Logistics & Purchasing
	Outstanding Contribution Award Active Participation Award	Tianjin Customs Brokers Association
	Top 10 Logistics Enterprises	Chengdu Logistics Association
	Advanced Certified Enterprise	Beijing Customs District P.R.China
Taiwan	Outstanding Enterprise in Agricultural and Food Products Marketing	Agriculture and Food Agency, Council of Agriculture, Executive Yuan

LOCATION	AWARD	ORGANISER
INDUSTRY RECOGNITION		
India	The 11th South East Cargo & Logistics Awards 2019 ▪ Freight Forwarder of the Year (Multicargo) ▪ Container Freight Station Operator of the Year (Private) – Containerised ▪ Customs Broker of the Year	Exim India Shipping Times
	The 10th All India Maritime and Logistics Awards 2019 ▪ Customs Broker of the Year (Export) ▪ Hall of Fame Honour	Exim India Shipping Times
	The 2nd Aviation Cargo Express – South East Air Cargo Conclave & Awards 2019 ▪ Airfreight Forwarder of the Year (International) ▪ Customs Broker of the Year (Air Import) ▪ Dynamic Air Cargo Professional of the Year Awardee: L M Sundaram – Senior Vice President of Kerry Indev Logistics	Exim India Shipping Times
COMMENDATIONS FROM CUSTOMERS AND PARTNERS		
Hong Kong	Best Transportation Company 2018	Canon
	10 Years of Outstanding Partnership	Miele
	Best Logistics Service Provider 2018	BOSCH
	Excellent Partner 2019	BSH Home Appliances
	Top Customer Award 2019	Virgin Atlantic Cargo
Mainland China	Outstanding Performance on Singles' Day of the Year 2019	Cainiao
	2018 Strategic Partner	Hefu Catering Management
	Outstanding Contribution Award	China Cargo Airlines
	Best Supplier 2019	BDR Thermea Group
	2018 Best Carrier	Cargill
Taiwan	Excellent Logistics Award 2019	Amway
	Million US Dollar Sales Award 2018	China Airlines
	Appreciation for the Outstanding Performance in 2018	EVA Air
Singapore	Top Agents Award 2018/2019	Singapore Airlines Cargo
	Top Sales Agent 2018	EVA Air
Vietnam	Top Agent Golden Award 2019	Vietnam Airlines
Dubai	Certificate of Appreciation	Cathay Pacific Cargo
	Appreciation of the Service and Contribution 2018-2019	Emirates SkyCargo

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 2019.

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 2019, 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.

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 KUOK Khoon Hua (Chairman)
(appointment as Chairman effective from 31 May 2019)
Mr MA Wing Kai William (Group Managing Director)
Mr CHEUNG Ping Chuen Vicky
(appointment effective from 1 April 2020)
Mr NG Kin Hang
(appointment effective from 1 January 2019)
Mr YEO George Yong-boon
(retirement effective from 31 May 2019)

Non-executive Director

Ms TONG Shao Ming
(appointment effective from 1 June 2019)
Mr CHIN Siu Wa Alfred
(retirement effective from 31 May 2019)

Independent Non-executive Directors

Ms KHOO Shulamite N K
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok
Mr ZHANG Yi Kevin
Mr WAN Kam To
(retirement effective from 31 May 2019)

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 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 2019 is as follows:

Name of Director	Training*
Mr KUOK Khoon Hua	√
Mr MA Wing Kai William	√
Mr NG Kin Hang (appointment effective from 1 January 2019)	√
Ms TONG Shao Ming (appointment effective from 1 June 2019)	√#
Ms KHOO Shulamite N K	√
Ms WONG Yu Pok Marina	√
Mr YEO Philip Liat Kok	√
Mr ZHANG Yi Kevin	√

* *Each of the Directors has attended training sessions arranged by the Company on "Recent Consultation Conclusions on Reverse Takeovers and Very Substantial Disposals" and "Recent Regulatory Enforcement Trend".*

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 2019 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 2018, discloseable and connected transactions in relation to the disposal of 100% total issued share capital of two indirect wholly-owned subsidiaries, submission in relation to Practice Note 15 of the Listing Rules for the Proposed Spin-off, unaudited interim results for the six months ended 30 June 2019, revision of annual caps for continuing connected transactions for the year ended 31 December 2019 and renewal of continuing connected transactions 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 KUOK Khoon Hua	4/4
Mr MA Wing Kai William	4/4
Mr NG Kin Hang (appointment effective from 1 January 2019)	4/4
Ms TONG Shao Ming (appointment effective from 1 June 2019)	3/3
Ms KHOO Shulamite N K	3/4
Ms WONG Yu Pok Marina	4/4
Mr YEO Philip Liat Kok	4/4
Mr ZHANG Yi Kevin	3/4
Mr YEO George Yong-boon (retirement effective from 31 May 2019)	1/1
Mr CHIN Siu Wa Alfred (retirement effective from 31 May 2019)	1/1
Mr WAN Kam To (retirement effective from 31 May 2019)	1/1

Other than the above full Board meetings, the Chairman (Mr KUOK Khoon Hua) 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 KUOK Khoon Hua	1/1
Ms TONG Shao Ming (appointment effective from 1 June 2019)	1/1
Ms KHOO Shulamite N K	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 and two special general meetings in relation to the disposal of 100% total issued share capital of two indirect wholly-owned subsidiaries and the Proposed Spin-off, all on 31 May 2019 during the year ended 31 December 2019. All proposed Shareholders' resolutions put to the above general meetings were resolved by poll vote and were duly passed. The vote tally of each such resolution was set out in the Company's announcements released on the day of the general meetings.

The attendance of the members of the Board and/or each Board committee in the said general meetings 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 KUOK Khoon Hua	√		√			3/3
Mr MA Wing Kai William	√			√	√	3/3
Mr NG Kin Hang (appointment effective from 1 January 2019)				√	√	3/3
Ms TONG Shao Ming (appointment effective from 1 June 2019)		√		√		N/A
Ms KHOO Shulamite N K	√		√			3/3
Ms WONG Yu Pok Marina		√	√			3/3
Mr YEO Philip Liat Kok	√		√			3/3
Mr ZHANG Yi Kevin	√	√				3/3
Mr YEO George Yong-boon (retirement effective from 31 May 2019)	√		√	√		1/1
Mr CHIN Siu Wa Alfred (retirement effective from 31 May 2019)		√				1/1
Mr WAN Kam To (retirement effective from 31 May 2019)	√	√				1/1

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 and Risk Management Committee meetings. Minutes of the Remuneration Committee meetings are taken by the secretary of the Remuneration Committee appointed by the chairman of the Remuneration Committee. Minutes of the Risk Management

Committee meetings are taken by the secretary of the Risk Management Committee appointed in accordance with its terms of reference. 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 KUOK Khoon Hua, 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 and the Non-executive Director, while members of the Risk Management Committee are Executive Directors, members of the senior management and a department head of the Company.

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 YEO Philip Liat Kok and Mr ZHANG Yi Kevin, and two Executive Directors, being Mr KUOK Khoon Hua and Mr MA Wing Kai William. The chairman of the Remuneration Committee is Ms KHOO Shulamite N K. Each of Mr YEO George Yong-boon and Mr WAN Kam To stepped down as a member of the Remuneration Committee effective on 31 May 2019, and each of Mr MA Wing Kai William and Mr YEO Philip Liat Kok has been appointed as a member of the Remuneration Committee effective on 31 May 2019.

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 four meetings during the year ended 31 December 2019 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 review terms of reference annually.

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
Ms KHOO Shulamite N K (Chairman)	INED	3/4
Mr KUOK Khoon Hua	Chairman	4/4
Mr MA Wing Kai William (appointment effective from 31 May 2019)	Group Managing Director	3/3
Mr YEO Philip Liat Kok (appointment effective from 31 May 2019)	INED	3/3
Mr ZHANG Yi Kevin	INED	3/4
Mr YEO George Yong-boon (retirement effective from 31 May 2019)	Chairman	1/1
Mr WAN Kam To (retirement effective from 31 May 2019)	INED	1/1

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 and Share Award Scheme.

For the year ended 31 December 2019, 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

* *All members of the Finance Committee are either Executive Directors or a Non-executive Director, and all members of the Risk Management Committee are Executive Directors, members of the senior management or a department head of the Company, and annual fee or attendance fee in such capacity as a committee member of the Finance Committee and Risk Management Committee is not applicable.*

Details of the remuneration paid to each of the Directors for the year ended 31 December 2019 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 2019 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 two Independent Non-executive Directors, being Ms WONG Yu Pok Marina and Mr ZHANG Yi Kevin and one Non-executive Director, being Ms TONG Shao Ming. 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. Each of Mr CHIN Siu Wa Alfred and Mr WAN Kam To stepped down as a member of the Audit and Compliance Committee effective on 31 May 2019, and Ms TONG Shao Ming has been appointed as a member of the Audit and Compliance Committee effective on 1 June 2019.

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 2019 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 2019 to review the audited annual results and financial report for the year ended 31 December 2018, 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 2019, the non-exempt continuing connected transaction for the year ended 31 December 2019, 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 and terms of reference annually.

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
Ms WONG Yu Pok Marina (Chairman)	INED	4/4
Ms TONG Shao Ming (appointment effective from 1 June 2019)	NED	3/3
Mr ZHANG Yi Kevin	INED	3/4
Mr CHIN Siu Wa Alfred (retirement effective from 31 May 2019)	NED	1/1
Mr WAN Kam To (retirement effective from 31 May 2019)	INED	1/1

The Company's results for the year ended 31 December 2019 have been reviewed by the Audit and Compliance Committee on 20 March 2020.

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 2019.

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 one Executive Director, being 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 KUOK Khoon Hua. Mr YEO George Yong-boon stepped down as the chairman of the Nomination Committee effective on 31 May 2019 and Mr KUOK Khoon Hua became the chairman of the Nomination Committee effective on 31 May 2019.

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 2019 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 assess the independence of the Independent Non-executive Directors, to review and implement the Nomination Policy and Board Diversity Policy of the Company and to review terms of reference annually.

The Nomination Committee passed two resolutions in writing in lieu of meeting by all committee members during the year ended 31 December 2019 to recommend the appointment and retirement of the Chairman, the retirement of the Executive Director, the appointment and retirement of the Non-executive Director, the retirement of the Independent Non-executive Director and the changes in composition of members of the Board committees.

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 KUOK Khoon Hua (Chairman) (appointment as chairman effective from 31 May 2019)	Chairman	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
Mr YEO George Yong-boon (retirement effective from 31 May 2019)	Chairman	N/A

The Nomination Policy adopted by the Company on 21 December 2018 provides that the Nomination Committee shall recommend to the Board for the nomination, re-appointment of new Directors in accordance with the following procedures and process: (a) the Nomination Committee shall review and assess factors in line with the diversity of the Board, including but not limited to professional experience, skills, knowledge and length of service, and shall consider the candidate's availability to devote sufficient time to the Board and independence of each Independent Non-executive Director based on the requirements of the Listing Rules (as amended from time to time); (b) the Nomination Committee shall nominate suitable candidates to the Board and make recommendations to Shareholders for election as Non-executive Directors at general meetings or appoint as Non-executive Directors to fill casual vacancies based on the then-current and anticipated future leadership needs of the Company, with a view to achieving a sustainable and balanced development of the Company; and (c) the Nomination Committee shall review and monitor the implementation of the Nomination Policy of the Company, as appropriate from time to time, and will report annually in the annual reports of the Company. The Board shall have the final decision on all matters relating to the recommendation of candidates to stand for election at any general meeting.

Prior to the listing of the Company on 19 December 2013 and up to the year ended 31 December 2019, 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 four 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. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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 two Executive Directors, being Mr MA Wing Kai William and Mr NG Kin Hang and one Non-executive Director, being Ms TONG Shao Ming. The chairman of the Finance Committee is Mr MA Wing Kai William. Mr YEO George Yong-boon stepped down as the chairman of the Finance Committee effective on 31 May 2019. Mr NG Kin Hang has been appointed as a member of the Finance Committee effective on 1 January 2019, Mr MA Wing Kai William became the chairman of the Finance Committee effective on 31 May 2019 and Ms TONG Shao Ming has been appointed as a member of the Finance Committee effective on 1 June 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 2019 to review and approve 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, change of bank mandate, opening of bank account 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, two members of the senior management and a department head of the Company, who are non-members of the Board. The chairman of the Risk Management Committee is Mr MA Wing Kai William. Mr NG Kin Hang has been appointed as a member of the Risk Management Committee effective on 1 January 2019 and a department head of the Company has been appointed as a member of the Risk Management Committee effective on 27 November 2019.

The primary duties of the Risk Management Committee include, but are 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 55 of this annual report.

In conducting its 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 2019 to review and update risk register, improvement plan and terms of reference annually. The Risk Management Committee revised its terms of reference on 27 November 2019 to include heads of divisions or departments as eligible committee members.

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 NG Kin Hang (appointment effective from 1 January 2019)	ED	1/2
Two members of the senior management	N/A	2/2
A department head (appointment effective from 27 November 2019)	N/A	N/A

D MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors (including Ms TONG Shao Ming, the Non-executive Director, appointment effective from 1 June 2019) and the Directors have confirmed that they have complied with the Model Code (i) during the year ended 31 December 2019; or (ii) during the period from their respective appointment dates and up to 31 December 2019, 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 2019, 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$17,561,000 and HK$5,656,000 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 2019, 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 the 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 2019 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 reviewed 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, Finance 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.

I 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 54, 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 are 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 communications 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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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 2019, 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 2019.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

KUOK Khoon Hua

Aged 41, has been the Chairman of the Company since May 2019.

Mr Kuok has been an Executive Director of the Company since November 2013. He has been the chairman of KHL since October 2016 and a director of KHL since January 2010, the vice chairman and the chief executive officer of KPL since June 2019, and a director of KGL since August 2012 and Kuok (Singapore) Limited since September 2016. KHL, KPL and KGL are the Controlling Shareholders of the Company.

Mr Kuok is also 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.

He was a non-executive director of KPL from June 2015 to May 2019.

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

MA Wing Kai William

Aged 58, 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 had served as a director of Kerry TJ from November 2008 to June 2019.

Mr Ma had also 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.

CHEUNG Ping Chuen Vicky

Aged 60, has been the Executive Director of the Company since April 2020.

Mr Cheung is a director of Apex Maritime Co., Inc. and its affiliates (collectively, "Apex Group"), which are currently subsidiaries of the Company. In 1990, Mr Cheung has founded his own freight forwarding company, Apex Group, and has been a director since then. Apex Group has been recognised as one of the top three volume providers for the Transpacific Trade and the Company has acquired 51% equity interests in Apex Group in 2016 and has subsequently acquired the remaining 49% equity interests in Apex Group in 2020.

Mr Cheung obtained a bachelor's degree in science (business administration and accounting) from San Francisco State University in 1985.

NON-EXECUTIVE DIRECTOR

NG Kin Hang

Aged 40, has been the 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.

TONG Shao Ming

Aged 44, has been the Non-executive Director of the Company since June 2019.

Ms Tong has served as the investment director of KHL since 2010. KHL is a Controlling Shareholder of the Company.

In 2016, Ms Tong served as a director of Great Wall Pan Asia Holdings Limited (a company listed on the Stock Exchange with stock code 583). Between 2009 and 2012, Ms Tong served as the investment director of Wilmar International Limited (a company listed on the Singapore Stock Exchange with stock code F34). Between 2005 and 2008, Ms Tong served as an executive director in the equity capital markets department of UBS Group AG. Between 1998 and 2005, Ms Tong worked as a solicitor in the London and Hong Kong offices of a law firm, Slaughter and May.

Ms Tong obtained a bachelor's degree in jurisprudence from Oxford University in 1997.

INDEPENDENT NON-EXECUTIVE DIRECTORS

KHOO Shulamite N K

Aged 58, 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 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.

WONG Yu Pok Marina JP

Aged 71, 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, Luk Fook Holdings (International) Limited (a company listed on the Stock Exchange with stock code 590) since August 2013 and SJM Holdings Limited (a company listed on the Stock Exchange with stock code 880) since June 2019. 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 73, 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, Accuron Technologies Pte Ltd and Advanced MedTech Holdings 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 49, 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 64, 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 55, 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 over 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 the principal adviser of the Advisory Board to Hong Kong Auxiliary Medical Service Officers' Club, a member of the Audit Committee of the Hong Kong Committee for UNICEF and the Advisory Committee of School of Decision Sciences of The Hang Seng University of Hong Kong.

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 58, 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, countries of the Commonwealth of Independent States, 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. 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 54, 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.

LAU Kin Pui Samuel

Aged 53, 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 member of the Hong Kong Logistics Development Council under the Transport and Housing Bureau of the Hong Kong Government and the Advisory Board of the Hong Kong Export Credit Insurance Corporation. He has been a member of the Aviation Development and Three-runway System Advisory Committee of the Hong Kong Government for a period of two years since August 2019.

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 53, 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 over 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.

PARKES John Leslie

Aged 64, joined the Group in September 2019 as Managing Director - Integrated Logistics to take up the leadership and oversee the overall management of the global integrated logistics business of the Group.

Prior to joining the Group, Mr Parkes has over 35 years of experience in the transportation and logistics industry. With a specific focus on the Asia Pacific region, he has held operational leadership positions in major logistics businesses, specialising in multi-country business development and management, merger and acquisition and global account management.

Mr Parkes is a Fellow of The Chartered Institute of Logistics and Transport (UK) and an Associate of The Institute of Road Transport Engineers (now as a professional sector of Society of Operations Engineers). He obtained an advanced certificate in road transportation from Rand Afrikaans University (now known as University of Johannesburg), South Africa in 1985 and completed a leadership program held by Massachusetts Institute of Technology Sloan School of Management in collaboration with The University of Hong Kong in 2010.

RENARD-BIRON Mathieu Vincent

Aged 53, 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 was awarded his master's degree in economics and finance from Paris Institute of Political Studies in 1990.

SHEN Chung-Kui

(Also known as Richard SHEN), aged 77, has been the Chairman of Kerry TJ since November 2008.

He has over 50 years of experience in the logistics industry, ranging from sales and marketing, trucking, container terminal, port operation, warehousing businesses and documentation. He is responsible for overseeing the Taiwan logistics operations of the Group.

From 2014 to 2019, Mr Shen had been 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 and was awarded as one of the outstanding alumni in 2018. 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, Shipping Management research study at China Maritime Institute, Taiwan in 1988, and Strategic Management of Logistics Courses at Tianjin University and Tsinghua University, China in 2011.

TAN Kai Whatt Robert

Aged 63, 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 25 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 60, 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 2019.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the section headed "Statement of Accounts" of this annual report.

BUSINESS REVIEW

OVERVIEW AND PERFORMANCE OF THE YEAR

2019 was a challenging and turbulent year. Global economic growth weakened considerably as international trade disputes dragged on and Mainland China's GDP growth slowed down. Social unrest in Hong Kong further impacted the local economy and affected consumer confidence. The COVID-19 outbreak is causing severe disruptions to production, mobility and the financial markets globally.

The shift in global supply chain in response to trade wars has accelerated the pace of enterprises relocating sourcing and production activities from Mainland China to other Asian countries. Riding on its solid presence and proven track record in Asia, Kerry Logistics assisted its customers to reconfigure their supply chains and provided alternative solutions to help them cope with new scenarios.

Despite the weak product demand and lower productivity worldwide, the Group registered growth in revenue, core operating profit and core net profit again in 2019. Supported by its diversified business portfolio, extensive geographical coverage and broad customer mix, the Group was able to achieve positive growth across all regions with double digit percentage increase in its segment profit.

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 HKFRS, 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.

The Company announced in March 2019 the Proposed Spin-off. The Stock Exchange subsequently approved the spin-off proposal in June 2019. On 28 February 2020, Kerry Express Thailand submitted the application for issuance and offering of ordinary shares to The Securities and Exchange Commission of Thailand.

Following the Proposed Spin-off, except express delivery in Thailand that will be operated by Kerry Express Thailand, the Group will continue to operate its existing principal businesses globally, which encompass IL, IFF and supply chain solutions. Following the Proposed Spin-off, there will be a clear delineation between the businesses of the Group and the business of Kerry Express Thailand.

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 EMS 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 the EMS.

We care about our environment and 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.

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 2019.

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.

YEA, established in 2001, has been supporting our strategic growth by grooming high-calibre talent. 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, F&B, 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 standard, the facility security requirements of the Transported Asset Protection Association and ISO22000 food safety management and Hazard Analysis Critical Control Point (HACCP) certifications for our F&B business unit.

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. 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 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. Stringent cybersecurity measures were in-place to ensure that confidentiality, integrity and availability of data stored in on-premises and cloud. During the year, we had applied machine learning and artificial intelligence to combat cybersecurity attacks, saving a considerable amount of time and costs.

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 2019

1 ACQUISITION OF REMAINING SHARES IN TARGET GROUP

Pursuant to the acquisition agreement dated 13 March 2016, Kerry US purchased the entire issued and outstanding membership interests of KLN Investment from the key sellers at a consideration of approximately US$88,000,000 and Kerry Europe agreed to guarantee the performance and payment of Kerry US's obligations under the acquisition agreement. KLN Investment has become an indirect wholly-owned subsidiary of the Company upon completion of the acquisition of such membership interests, as well as holding 51% of the shareholding in each of the entities in the Target Group.

Pursuant to the announcement of the Company dated 13 March 2016, KLN Investment and the sellers will enter into the option agreements at the completion of such acquisition, in which KLN Investment agrees to grant the sellers the put options, and the sellers agree to grant KLN Investment the call options in respect of the remaining shares of the Target Group. On 31 May 2016, Kerry Europe, KLN Investment and the sellers entered into the option agreements. As at the date of this annual report, no options under the option agreements were being exercised.

On 22 January 2020, the Board has announced that the Company and the sellers entered into the binding term sheet in relation to the Proposed Acquisition. On 24 February 2020, the Board has announced that the stock sale and purchase agreement has been entered into, *inter alia*, among KLN Investment, the sellers and the Target Group in relation to the Proposed Acquisition. Pursuant to the stock sale and purchase agreement, KLN Investment agreed to purchase the remaining shares of the Target Group from the sellers at a consideration of US$176,132,511 to be satisfied as to 30% in cash of approximately US$52,840,000 and the remaining 70% by issuing 76,445,430 new Shares to the sellers at the issue price of HK$12.58 per Share. Upon completion of the Proposed Acquisition, each of the entities forming the Target Group will become an indirect wholly-owned subsidiary of the Company. On 31 March 2020, the Board has announced that the Proposed Acquisition has been completed.

The sellers are individual shareholders of the Target Group who hold the remaining shares. KLN Investment holds 51% interest in each entity forming the Target Group as at the relevant time. Two of the sellers, Mr CHEUNG Ping Chuen Vicky and Ms CHEUNG Lai Lena, are the directors of each of the entities in the Target Group and, thus, connected persons of the Company as defined under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are more than 5% but all applicable percentage ratios are less than 25%, the Proposed Acquisition constitutes a discloseable and connected transaction of the Company, which is subject to the reporting, announcement and the independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. Please refer to the announcements of the Company dated 22 January 2020, 24 February 2020, 28 February 2020 and 31 March 2020 and the circular of the Company dated 16 March 2020 for details.

2 PROPOSED SPIN-OFF AND SEPARATE LISTING OF A NON WHOLLY-OWNED SUBSIDIARY

Kerry Express Thailand is an indirect non wholly-owned subsidiary of the Company and is principally engaged in the express delivery business in Thailand. On 28 February 2020, Kerry Express Thailand submitted the application for the Proposed Spin-off, namely the application for the issuance and offering of ordinary shares to The Securities and Exchange Commission of Thailand.

Following the Proposed Spin-off, the Company's deemed interests, through its non wholly-owned subsidiary, in the issued share capital of Kerry Express Thailand will be reduced to approximately 52.14%. Kerry Express Thailand will remain as a subsidiary of the Company immediately after completion of the Proposed Spin-off and the Company will continue to consolidate the results of Kerry Express Thailand into the consolidated financial statements of the Group.

The Proposed Spin-off constitutes a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules and all of the applicable percentage ratios in respect of the Proposed Spin-off are expected to be below 5%. As such, the Proposed Spin-off does not constitute a discloseable transaction of the Company under the Listing Rules. Please refer to the announcements of the Company dated 18 March 2019 and 28 February 2020 and the circular of the Company dated 16 May 2019 for details.

Apart from the foregoing, there were no other significant events affecting the Company nor any of its subsidiaries after the year ended 31 December 2019 requiring disclosure in this annual report.

FINAL DIVIDEND

The Board resolved to propose to the Shareholders in the forthcoming AGM for the distribution of a final dividend of 18 HK cents per share for the year ended 31 December 2019 payable to the Shareholders whose names are listed in the Registers of Members on Thursday, 4 June 2020. 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 2019 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 2019 are set out in note 27 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company has distributable reserves of HK$708 million in total available for distribution, of which HK$309 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 "2015-2019 Financial Summary" of this annual report.

DONATIONS

The Group made a donation of HK$3.7 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 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 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 2019 are set out in notes 28 and 29 to the Financial Statements.

CONTINGENT LIABILITIES

As at 31 December 2019, 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 KUOK Khoon Hua (Chairman)
(appointment as Chairman effective from 31 May 2019)
Mr MA Wing Kai William (Group Managing Director)
Mr CHEUNG Ping Chuen Vicky
(appointment effective from 1 April 2020)
Mr NG Kin Hang
(appointment effective from 1 January 2019)
Mr YEO George Yong-boon
(retirement effective from 31 May 2019)

Non-executive Director

Ms TONG Shao Ming
(appointment effective from 1 June 2019)
Mr CHIN Siu Wa Alfred
(retirement effective from 31 May 2019)

Independent Non-executive Directors

Ms KHOO Shulamite N K
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok
Mr ZHANG Yi Kevin
Mr WAN Kam To
(retirement effective from 31 May 2019)

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. Ms KHOO Shulamite N K, Mr YEO Philip Liat Kok and Mr ZHANG Yi Kevin will be retiring and be subject to re-election in the forthcoming AGM.

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 CHEUNG Ping Chuen Vicky and Ms TONG Shao Ming, who were appointed by the Board effective from 1 April 2020 and 1 June 2019, will be retiring and be subject to re-election in the forthcoming AGM respectively.

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, 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 2019 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 2019, 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)]

	Ordinary Shares in the Company					
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
KUOK Khoon Hua[(2)]	1,101,000	–	–	3,018,492	4,119,492	0.24%
MA Wing Kai William[(3)]	5,029,536	–	–	1,300,000	6,329,536	0.37%
NG Kin Hang (appointment effective from 1 January 2019)[(4)]	164,018	–	–	–	164,018	0.01%
WONG Yu Pok Marina[(5)]	200,000	–	–	–	200,000	0.01%
YEO Philip Liat Kok[(6)]	200,000	–	–	–	200,000	0.01%

Notes:

(1) All interests in Ordinary Shares in the Company were as at 31 December 2019.

(2) 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.

(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; (iv) award granted under the Share Award Scheme conferring the conditional right upon vesting in the form of 738,026 Ordinary Shares; and (v) 1,300,000 Ordinary Shares held through a discretionary trust of which Mr Ma is a discretionary beneficiary.

(4) Mr Ng is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 120,000 Ordinary Shares; and (ii) award granted under the Share Award Scheme conferring the conditional right upon vesting in the form of 44,018 Ordinary Shares.

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

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

(II) ASSOCIATED CORPORATIONS

Kerry Group Limited[1]

Directors	Ordinary shares in KGL					
	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[2]	2,000,000	–	–	225,875,033	227,875,033	15.03%
MA Wing Kai William[3]	1,810,620	–	–	–	1,810,620	0.12%
TONG Shao Ming (appointment effective from 1 June 2019)[4]	1,000,000	–	–	–	1,000,000	0.07%

Notes:

(1) *All interests in ordinary shares in KGL were as at 31 December 2019.*
(2) *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) 225,875,033 ordinary shares in KGL held through discretionary trusts of which Mr Kuok is a discretionary beneficiary.*
(3) *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.*
(4) *Ms Tong is interested in 1,000,000 ordinary shares in KGL as beneficial owner.*

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
KUOK Khoon Hua[2]	1,179,413	–	–	3,297,763	4,477,176	0.31%
MA Wing Kai William[3]	841,020	–	–	50,000	891,020	0.06%

Notes:

(1) *All interests in ordinary shares in KPL were as at 31 December 2019.*
(2) *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.*
(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.*

Kerry Express (Thailand) Public Company Limited[1]

Directors	Ordinary shares in Kerry Express Thailand: 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]	20,543	–	–	–	20,543	1.71%
NG Kin Hang (appointment effective from 1 January 2019)[3]	20,402	–	–	–	20,402	1.70%

Notes:

(1) All interests in ordinary shares in Kerry Express Thailand were as at 31 December 2019.
(2) Mr Ma is interested in 20,543 ordinary shares in Kerry Express Thailand as beneficial owner.
(3) Mr Ng is interested in 20,402 ordinary shares in Kerry Express Thailand as beneficial owner.

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 2019.
(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 2019.
(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 2019.
(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 2019.
(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 2019.
(2) Mr Kuok is interested in 5 ordinary shares in Vencedor as beneficial owner.

Save as disclosed above, as at 31 December 2019, 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 2019, 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)]	65.33%
Kerry Holdings Limited	Interest of controlled corporations	1,090,758,684[(1)]	63.56%
Kerry Properties Limited	Beneficial owner	718,340,998[(1)]	41.86%
Caninco Investments Limited	Beneficial owner	156,124,097[(1)]	9.10%
Darmex Holdings Limited	Beneficial owner	128,449,630[(1)]	7.48%
GIC Private Limited	Investment manager	102,189,240	5.95%

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 2019, 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 2019 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 2019 and up to the date of this annual report.

SIGNIFICANT ACQUISITION/DISPOSAL AND DISCLOSEABLE AND CONNECTED TRANSACTION

The following acquisition/disposal each constitutes a discloseable transaction for the Company.

1 DISPOSAL OF 100% TOTAL ISSUED SHARE CAPITAL OF TWO INDIRECT WHOLLY-OWNED SUBSIDIARIES

On 28 March 2019, the Company as vendor guarantor, Kerry Warehouse (HK) Holdings Limited (an indirect wholly-owned subsidiary of the Company) as vendor, Giant Assets Holdings Limited as purchaser and KPL as purchaser guarantor entered into two sale and purchase agreements, pursuant to which the vendor would sell and the purchaser would purchase 100% of the total issued share capital of Dec Limited (an indirect wholly-owned subsidiary of the Company and the ultimate owner of a warehouse in Chai Wan, Hong Kong) and Belminton Inc. (an indirect wholly-owned subsidiary of the Company and the ultimate owner of a warehouse in Shatin, Hong Kong) (the "Disposals").

The purchaser is an indirect wholly-owned subsidiary of KPL and the purchaser guarantor, KPL, is a substantial shareholder and a Controlling Shareholder of the Company. Accordingly, KPL is a connected person of the Company. As more than one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposals are more than 5% but less than 25%, the Disposals constitute discloseable and connected transactions of the Company, which would be subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. Please refer to the announcements of the Company dated 28 March 2019 and 31 May 2019 and the circular of the Company dated 6 May 2019 for details.

2 ACQUISITION OF REMAINING SHARES IN TARGET GROUP

Pursuant to the acquisition agreement dated 13 March 2016, Kerry US purchased the entire issued and outstanding membership interests of KLN Investment, which held 51% interest in the Target Group, from the key sellers at a consideration of approximately US$88,000,000 and Kerry Europe agreed to guarantee the performance and payment of Kerry US's obligations under the acquisition agreement.

Pursuant to the announcement of the Company dated 13 March 2016, KLN Investment and the sellers will enter into the option agreements at the completion of such acquisition, in which KLN Investment agrees to grant the sellers the put options, and the sellers agree to grant KLN Investment the call options in respect of the remaining shares of the Target Group. On 31 May

2016, Kerry Europe, KLN Investment and the sellers entered into the option agreements. As at the date of this annual report, no options under the option agreements were being exercised.

On 22 January 2020, the Board has announced that the Company and the sellers entered into the binding term sheet in relation to the Proposed Acquisition. The terms and conditions of the Proposed Acquisition are subject to further negotiations between the Company and the sellers. On 24 February 2020, the Board has announced that the stock sale and purchase agreement has been entered into, *inter alia*, among KLN Investment, the sellers and the Target Group in relation to the Proposed Acquisition. Pursuant to the stock sale and purchase agreement, KLN Investment agreed to purchase the remaining shares of the Target Group from the sellers at a consideration of US$176,132,511 to be satisfied as to 30% in cash of approximately US$52,840,000 and the remaining 70% by issuing 76,445,430 new Shares to the sellers at the issue price of HK$12.58 per Share. Upon completion of the Proposed Acquisition, each of the entities forming the Target Group will become an indirect wholly-owned subsidiary of the Company. On 31 March 2020, the Board has announced that the Proposed Acquisition has been completed.

Two of the sellers, Mr CHEUNG Ping Chuen Vicky and Ms CHEUNG Lai Lena, are the directors of each of the entities in the Target Group and, thus, connected persons of the Company as defined under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are more than 5% but all applicable percentage ratios are less than 25%, the Proposed Acquisition constitutes a discloseable and connected transaction of the Company, which is subject to the reporting, announcement and the independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. Please refer to the section headed "Events after the year ended 31 December 2019" of this Report of Directors and the announcements of the Company dated 22 January 2020, 24 February 2020, 28 February 2020 and 31 March 2020 and the circular of the Company dated 16 March 2020 for details.

3 PROPOSED SPIN-OFF AND SEPARATE LISTING OF A NON WHOLLY-OWNED SUBSIDIARY

On 28 February 2020, Kerry Express Thailand submitted the application for the issuance and offering of ordinary shares to The Securities and Exchange Commission of Thailand in respect of the Proposed Spin-off.

Following the Proposed Spin-off, the Company's deemed interests, through its non wholly-owned subsidiary, in the issued share capital of Kerry Express Thailand will be reduced to approximately 52.14%. Kerry Express Thailand will remain as a subsidiary of the Company immediately after completion of the Proposed Spin-off and the Company will continue to consolidate the results of Kerry Express Thailand into the consolidated financial statements of the Group.

The Proposed Spin-off constitutes a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules and all of the applicable percentage ratios in respect of the Proposed Spin-off are expected to be below 5%. As such, the Proposed Spin-off does not constitute a discloseable transaction of the Company under the Listing Rules. Please refer to the section headed "Events after the year ended 31 December 2019" of this Report of Directors, the announcements of the Company dated 18 March 2019 and 28 February 2020 and the circular of the Company dated 16 May 2019 for details.

CONTINUING CONNECTED TRANSACTIONS

Among the related party transactions disclosed in note 37 to the Financial Statements, the following framework agreements with KPL 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.

On 28 July 2014, the Company entered into a framework agreement with KPL (the "2014 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 2014 Framework Agreement commenced on 1 August 2014 and expired on 31 December 2016. The 2014 Framework Agreement can be extended for a further term of three years with the mutual written agreement of the Company and KPL.

The Company renewed the 2014 Framework Agreement by entering into a new framework agreement with KPL on 9 December 2016 (the "2016 Framework Agreement") for a fixed term of three years, and to set new annual caps for the KPL Transactions for the three years ended 31 December 2017, 2018 and 2019.

The original annual caps payable by the Group under the KPL Transactions for the three years ended 31 December 2017, 2018 and 2019 are HK$11.6 million, HK$12.0 million and HK$12.4 million, respectively. 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 respectively. Simultaneously, the original annual caps receivable by the Group under the KPL Transactions for the three years ended 31 December 2017, 2018 and 2019 are HK$9.9 million, HK$10.5 million and HK$11.5 million, respectively. During the two years ended 31 December 2017 and 2018, the KPL Transactions receivable amounted to HK$7.7 million and HK$8.7 million respectively.

Due to inclusion of more leased premises and the disposals of the two warehouses in Chai Wan and Shatin by the Group pursuant to the Disposals discussed above that transformed the transactions originally between the Company's subsidiaries into continuing connected transactions between KPL and the Company, the transaction amounts for the year ended 31 December 2019 was expected to be higher than the amount as envisaged at the time of entering into the 2016 Framework Agreement. On 29 August 2019, the Company entered into the supplemental agreement (the "Supplemental Agreement") with KPL to amend and supplement the 2016 Framework Agreement and to revise the transaction amounts for the year ended 31 December 2019. Pursuant to the Supplemental Agreement, the maximum aggregate values payable by the Group to the KPL Group per annum and receivable by the Group from the KPL Group per annum in connection with the KPL Transactions for the year ended 31 December 2019 have been amended to be HK$75.0 million and HK$20.0 million, respectively. Save for the revision of the annual cap for the year ended 31 December 2019, all other terms and conditions under the 2016 Framework Agreement remain the same.

The 2016 Framework Agreement and the annual caps of the transactions under the 2016 Framework Agreement have expired on 31 December 2019. On 29 August 2019, the Company entered into the framework agreement (the "2019 Framework Agreement") with KPL for a fixed term of three years, and to set new annual caps for the KPL Transactions for the three years ending 31 December 2020, 2021 and 2022. Pursuant to the 2019 Framework Agreement, the new annual caps payable by the Group under the KPL Transactions for the three years ending 31 December 2020, 2021 and 2022 are HK$100.0 million, HK$120.0 million and HK$140.0 million, respectively, and the new annual caps receivable by the Group under the KPL Transactions for the three years ending 31 December 2020, 2021 and 2022 are HK$35.0 million, HK$50.0 million and HK$55.0 million, respectively. Please refer to the announcements of the Company dated 9 December 2016 and 29 August 2019 for details.

During the year ended 31 December 2019, the KPL Transactions payable and receivable amounted to HK$55.3 million and HK$13.1 million, respectively.

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 2019 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 2019 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 Disposals, 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 29 August 2019 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 2019, 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 Disposals 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 2019 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 2019, 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 2019 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 2019 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 2019.

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 2019, a total of 17,358,500 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 2019 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 01/01/2019	Exercised (Notes a and b)	Lapsed	Outstanding as at 31/12/2019	Exercise price HK$	Exercise period
1.	Directors								
	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
	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
	NG Kin Hang (appointment effective from 1 January 2019)	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
	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
	YEO George Yong-boon (retirement effective from 31 May 2019)	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
	CHIN Siu Wa Alfred (retirement effective from 31 May 2019)	02/12/2013	I	-	-	-	-	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 (retirement effective from 31 May 2019)	02/12/2013	I	100,000	(100,000)	-	-	10.20	19/12/2013 - 01/12/2023
		02/12/2013	II	100,000	(100,000)	-	-	10.20	02/12/2014 - 01/12/2023
2.	Continuous Contract	02/12/2013	I	8,257,000	(3,657,000)	(115,000)	4,485,000	10.20	19/12/2013 - 01/12/2023
	Employees	02/12/2013	II	10,711,500	(2,043,000)	(115,000)	8,553,500	10.20	02/12/2014 - 01/12/2023
	Total:			**25,588,500**	**(8,000,000)**	**(230,000)**	**17,358,500**		

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$13.77.*
b. *During the year, no option was granted/granted for adjustment, transferred from/to other category 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. *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 2019, a total of 1,200,000 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 2019 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 01/01/2019	Exercised (Notes a and b)	Lapsed	Outstanding as at 31/12/2019	Exercise price HK$	Exercise period
1. Directors								
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
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
YEO George Yong-boon (retirement effective from 31 May 2019)	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
2. Continuous Contract Employees	09/01/2015	I	965,000	(965,000)	-	-	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	975,000	(975,000)	-	-	12.26	09/01/2016 – 08/01/2020
Total:			**4,140,000**	**(2,940,000)**	**-**	**1,200,000**		

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$13.98.*
b. *During the year, no option was granted/granted for adjustment, transferred from/to other category, 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. *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 2019, 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 2019, a total of 17,358,500 options granted under the Pre-IPO Share Option Scheme were outstanding, representing approximately 1.01% and 0.97% of the issued share capital of the Company as at 31 December 2019 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 2019, a total of 1,200,000 options granted under the Post-IPO Share Option Scheme were outstanding 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 7.17% and 6.85% of the issued share capital of the Company as at 31 December 2019 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

SHARE AWARD SCHEME

The Company has adopted the Share Award Scheme by a resolution of the Board on 25 January 2019. The Share Award Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the Share Award Scheme does not involve the grant of options by the Company to subscribe for new Shares.

The purpose of the Share Award Scheme is to support the long-term growth of the Group and enhance its reputation as an employer-of-choice in the industry, to attract and incentivise suitable personnel for the further development of the Group, to recognise contributions by participants, to retain talent and to help align the interests of the Directors and senior management of the Group with the Group's long-term performance.

As at 31 December 2019, a total of 1,096,689 awarded Shares were granted under the Share Award Scheme, representing approximately 0.06% and 0.06% of the issued share capital of the Company as at 31 December 2019 and the date of this annual report, respectively.

The maximum number of the Shares which can be awarded under the Share Award Scheme is 10% of the total number of Shares in issue from time to time.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, 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 2019, 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 2019.

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 2019.

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 2019, 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 2019 have been audited by PricewaterhouseCoopers, certified public accountants and registered PIE auditor.

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, 26 May 2020 to Friday, 29 May 2020 and on Thursday, 4 June 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before 4:30 p.m. on Monday, 25 May 2020. 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, 3 June 2020.

By Order of the Board
KUOK Khoon Hua
Chairman

Hong Kong, 31 March 2020

INDEPENDENT AUDITOR'S REPORT

pwc

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 202, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 2019, 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
T: (852) 2289 8888, F: (852) 2810 9888, www.pwchk.com

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

BUSINESS COMBINATIONS

Refer to notes 2(b) and 33 to the consolidated financial statements

During the year ended 31 December 2019, the Group acquired a number of subsidiaries for a total consideration of HK$868 million. The total identified net assets acquired amounted to HK$684 million (including the intangible assets of customer relationships and non-compete agreements of HK$277 million) and the goodwill arising from the acquisition amounted to HK$429 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 external valuers to value the assets and liabilities of the acquired business, including the identification and valuation of intangible assets.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

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 valuers;
- obtained the valuation reports and discussed with the external valuers 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	HOW OUR AUDIT ADDRESSED THE 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 2019, the Group has a balance of goodwill of HK$3,881 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.

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 2019, investment properties were valued at HK$10,308 million with a revaluation gain of HK$483 million recognised in the consolidated income statement for the year ended 31 December 2019. 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 prevailing market rents 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 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

RECOVERABILITY OF ACCOUNTS RECEIVABLE

Refer to notes 2(i)(iv), 4(a)(IX) and 22 to the consolidated financial statements

As at 31 December 2019, the Group had accounts receivable balances of HK$7,976 million. A provision of HK$218 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.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

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 Cho Kin Lun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

STATEMENT OF ACCOUNTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	5	41,139,102	38,138,528
Direct operating expenses	7	(35,736,601)	(33,382,961)
Gross profit		5,402,501	4,755,567
Other income and net gains	6	199,801	176,462
Administrative expenses	7	(2,841,723)	(2,538,268)
Operating profit before gain on disposal of warehouses and fair value change of investment properties		2,760,579	2,393,761
Gain on disposal of warehouses	37(c)	1,957,540	–
Change in fair value of investment properties	14	482,873	1,097,933
Operating profit		5,200,992	3,491,694
Finance costs	8	(358,171)	(224,245)
Share of results of associates and joint ventures	17(b)	85,530	110,734
Profit before taxation		4,928,351	3,378,183
Taxation	9	(588,951)	(506,561)
Profit for the year		4,339,400	2,871,622
Profit attributable to:			
Company's shareholders		3,788,323	2,439,775
Non-controlling interests		551,077	431,847
		4,339,400	2,871,622
Earnings per share	11		
– Basic		HK$2.21	HK$1.44
– Diluted		HK$2.21	HK$1.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	4,339,400	2,871,622
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated income statement		
Defined benefit pension plans		
– Actuarial losses	(11,277)	(13,014)
– Deferred income tax	1,365	2,239
Fair value change on financial assets at fair value through other comprehensive income	15,785	22,290
Item that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	117,031	(538,833)
Other comprehensive income/(loss) for the year (net of tax)	122,904	(527,318)
Total comprehensive income for the year	4,462,304	2,344,304
Total comprehensive income attributable to:		
Company's shareholders	3,877,802	2,025,173
Non-controlling interests	584,502	319,131
	4,462,304	2,344,304

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets	13	4,764,904	4,250,877
Investment properties	14	10,308,139	11,039,020
Leasehold land and land use rights	15(a)	–	590,450
Property, plant and equipment	16	11,343,539	10,347,048
Right-of-use assets	15(b)	3,985,642	–
Associates and joint ventures	17	1,386,733	1,472,268
Financial assets at fair value through other comprehensive income	18	150,843	170,799
Investment in convertible bonds	19	191,789	192,710
Deferred taxation	30	73,878	85,580
		32,205,467	28,148,752
Current assets			
Financial assets at fair value through profit or loss	21	119,731	261,884
Investment in convertible bonds	19	349,194	351,052
Inventories	20	504,671	425,217
Accounts receivable, prepayments and deposits	22	10,148,966	9,502,889
Tax recoverable		24,849	15,281
Amounts due from fellow subsidiaries	23	5,223	1,508
Restricted and pledged bank deposits	24(a)	20,622	20,148
Cash and bank balances	24(b)	5,825,246	4,305,949
		16,998,502	14,883,928
Current liabilities			
Lease liabilities	15(b)	961,585	–
Accounts payable, deposits received and accrued charges	25	7,387,785	6,795,738
Amounts due to fellow subsidiaries	23	9,788	–
Amounts due to related companies	23	28,729	24,795
Taxation		411,331	368,407
Short-term bank loans and current portion of long-term bank loans	29	1,947,820	4,936,902
Bank overdrafts	24(b)	233,750	193,076
		10,980,788	12,318,918

	Note	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Loans from non-controlling interests	28	223,805	177,833
Long-term bank loans	29	6,173,790	4,569,564
Lease liabilities	15(b)	2,545,880	–
Deferred taxation	30	656,212	673,955
Retirement benefit obligations	31	124,389	112,921
Other non-current liabilities	25	1,424,610	1,511,941
		11,148,686	7,046,214
ASSETS LESS LIABILITIES		27,074,495	23,667,548
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	26	858,102	852,632
Share premium and other reserves	27	2,992,215	3,140,183
Retained profits		20,325,662	17,221,259
		24,175,979	21,214,074
Put options written on non-controlling interests		(1,162,630)	(1,170,801)
		23,013,349	20,043,273
Non-controlling interests		4,061,146	3,624,275
TOTAL EQUITY		27,074,495	23,667,548

On behalf of the Board

KUOK Khoon Hua
Director

MA Wing Kai William
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Operating activities			
Net cash generated from operations	32(a)	4,051,842	2,344,326
Interest paid	8	(245,888)	(224,245)
Income tax paid		(602,220)	(457,693)
Net cash generated from operating activities		3,203,734	1,662,388
Investing activities			
Additions of property, plant and equipment	16	(1,681,392)	(1,889,075)
Additions of investment properties	14	(9,352)	–
Additions of right-of-use assets – leasehold land and land use rights		(23,071)	(16,313)
Disposal/(purchase) of financial assets at fair value through other comprehensive income		9,674	(50,539)
Purchase of financial assets at fair value through profit or loss		(3,188)	–
Disposal of financial assets at fair value through profit or loss		198,056	–
Proceeds from sale of property, plant and equipment		191,444	125,884
Proceeds from sale of subsidiaries, net of cash and cash equivalents disposed of	32(c)	3,650,628	111,535
Proceeds from sale of associates		20,154	8,762
Dividend income from financial assets at fair value through other comprehensive income		13,188	10,643
Dividends received from associates and joint ventures		75,958	19,554
Net decrease/(increase) in balances with associates and joint ventures		96,266	(84,585)
Interest received		61,790	64,532
Acquisition of subsidiaries, net of cash and cash equivalent acquired	32(b)	(637,845)	(421,040)
Acquisition of associates and joint ventures		(4,208)	(4,735)
Increase in investments in an associate and joint ventures		(37,595)	(27,105)
Capital reduction in investments in associates and joint ventures		7,017	–
(Increase)/decrease in restricted and pledged bank deposits		(474)	2,778
Net cash from/(used in) investing activities		1,927,050	(2,149,704)

	Note	2019 HK$'000	2018 HK$'000
Financing activities			
Repayment of bank loans		(9,317,330)	(5,286,038)
Drawdown of bank loans		7,859,013	6,689,093
Dividends of subsidiaries paid to non-controlling interests		(421,948)	(371,697)
Capital injection from non-controlling interests		33,497	80,127
Reduction of capital to non-controlling interests		(793)	(18,434)
Drawdown of loans from non-controlling interests		46,559	34,411
Repayments of loans from non-controlling interests		(509)	(16,223)
Payments of lease liabilities		(975,706)	–
Net cash consideration (paid to)/received from non-controlling interests without change of control	32(d)	(5,257)	570,268
Decrease in put options written on non-controlling interests	32(d)	(8,171)	(47,530)
Dividends paid		(1,028,244)	(594,744)
Proceeds from exercise of pre-/post-IPO share option scheme allotments		117,644	93,617
Net cash (used in)/from financing activities		(3,701,245)	1,132,850
Increase in cash and cash equivalents		1,429,539	645,534
Effect of exchange rate changes		49,084	(51,281)
Cash and cash equivalents at beginning of the year		4,112,873	3,518,620
Cash and cash equivalents at end of the year	24(b)	5,591,496	4,112,873

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Note	Attributable to shareholders of the Company								
		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 2019		852,632	3,108,610	31,573	16,948,417	272,842	(1,170,801)	20,043,273	3,624,275	23,667,548
Profit for the year		–	–	–	3,788,323	–	–	3,788,323	551,077	4,339,400
Defined benefit pension plans										
– Actuarial losses		–	–	–	(6,587)	–	–	(6,587)	(4,690)	(11,277)
– Deferred taxation		–	–	–	678	–	–	678	687	1,365
Net translation differences on foreign operations	27	–	–	83,796	–	–	–	83,796	33,235	117,031
Fair value change on financial assets at fair value through other comprehensive income	27	–	–	11,592	–	–	–	11,592	4,193	15,785
Total comprehensive income for the year		–	–	95,388	3,782,414	–	–	3,877,802	584,502	4,462,304
Dividends of subsidiaries paid to non-controlling interests		–	–	–	–	–	–	–	(421,948)	(421,948)
2018 final dividend paid		–	–	–	(1,112)	(272,842)	–	(273,954)	–	(273,954)
2019 interim dividend paid		–	–	–	(154,326)	–	–	(154,326)	–	(154,326)
2019 special dividend paid		–	–	–	(599,964)	–	–	(599,964)	–	(599,964)
2019 proposed final dividend		–	–	–	(308,917)	308,917	–	–	–	–
Transfers	27	–	–	(349,959)	349,959	–	–	–	–	–
Acquisition of subsidiaries	33	–	–	–	–	–	–	–	245,145	245,145
Capital injection from non-controlling interests		–	–	–	–	–	–	–	33,497	33,497
Reduction of capital to non-controlling interest		–	–	–	–	–	–	–	(793)	(793)
Changes in ownership of interests in subsidiaries without change of control	32(d)	–	–	(5,297)	–	–	8,171	2,874	(3,532)	(658)
Exercise of pre-IPO share option scheme allotment	27	4,000	87,146	(9,546)	–	–	–	81,600	–	81,600
Exercise of post-IPO share option scheme allotment	27	1,470	40,307	(5,733)	–	–	–	36,044	–	36,044
Share option lapsed	27	–	–	(274)	274	–	–	–	–	–
Total transactions with owners		5,470	127,453	(370,809)	(714,086)	36,075	8,171	(907,726)	(147,631)	(1,055,357)
Balance at 31 December 2019		858,102	3,236,063	(243,848)	20,016,745	308,917	(1,162,630)	23,013,349	4,061,146	27,074,495

	Note	Share capital	Share premium	Other reserves	Retained profits	Proposed final dividend	Put options written on non-controlling interests	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Company								
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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 (loss)/ 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		–	–	–	–	–	–	–	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		–	–	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

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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 31 March 2020.

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, INTERPRETATION 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 2019:

- HKFRS 16, 'Leases'
- Amendments to HKAS 19, 'Plan amendment, curtailment or settlement'
- Amendments to HKAS 28, 'Long-term interests in an associate and joint venture'
- Amendments to HKFRS 9, 'Prepayment features with negative compensation'
- HK(IFRIC)-Int 23, 'Uncertainty over income tax treatments'
- Annual improvements to HKFRSs 2015-2017 cycle

Except for HKFRS 16 described in note 2(a)(II), the adoption of the above amendments, interpretation and improvements to existing standards 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 16 'Leases' on the Group's financial statements.

As indicated in note 2(a)(I) above, the Group has adopted HKFRS 16, 'Leases' retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments, if any, arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed in note 2(r).

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.95%.

- ***PRACTICAL EXPEDIENTS APPLIED***

  In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

  - applying a single discount rate to a portfolio of leases with reasonably similar characteristics
  - relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
  - accounting for operating leases with a remaining lease term of 12 months or less as at 1 January 2019 as short-term leases

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) BASIS OF PREPARATION (CONTINUED)

(II) *CHANGE IN ACCOUNTING POLICIES* (CONTINUED)

- ***PRACTICAL EXPEDIENTS APPLIED*** (CONTINUED)
  - o excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
  - o using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

  The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4, 'Determining whether an Arrangement contains a Lease'.

- ***MEASUREMENT OF LEASE LIABILITIES***

  The Group had operating lease commitments of HK$1,663,251,000 as disclosed as at 31 December 2018 and on adoption of HKFRS 16, the Group recognised lease liabilities of HK$2,505,941,000 as at 1 January 2019. The key differences between the disclosed operating lease commitment and the recognised lease liabilities have mainly arisen from the discontinuing impact on operating lease commitments in using the lessee's incremental borrowing rate as of 1 January 2019, additional lease liabilities recognised under the scope of HKFRS 16 and exclusion of short-term and low-value leases recognised on a straight-line basis as expense.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 HK$'000	1 January 2019 HK$'000
Leasehold land and land use right	502,629	590,450
Equipment	40,664	29,629
Buildings	2,725,108	1,829,715
Motor vehicles	717,241	646,597
Total right-of-use assets	3,985,642	3,096,391

The change in accounting policy affected the right-of-use assets and lease liabilities, and both increased by HK$2,506 million on 1 January 2019. In addition, leasehold land and land use right of HK$590 million reclassified to right-of-use assets on 1 January 2019. There is no material impact on retained earnings on 1 January 2019.

- ***ADJUSTMENTS RECOGNISED ON THE ADOPTION OF HKFRS 16***

  All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) BASIS OF PREPARATION (CONTINUED)

(II) CHANGE IN ACCOUNTING POLICIES (CONTINUED)

- ***ADJUSTMENTS RECOGNISED ON THE ADOPTION OF HKFRS 16*** (CONTINUED)

The following is a reconciliation of the opening effect of HKFRS 16 as at 1 January 2019:

	Right-of-use assets	Leasehold land and land use rights	Lease liabilities – current portion	Lease liabilities – non-current portion
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018	–	590,450	–	–
Reclassification to right-of-use assets on adoption of HKFRS 16	590,450	(590,450)	–	–
Adjustment on adoption of HKFRS 16	2,505,941	–	673,190	1,832,751
At 1 January 2019	3,096,391	–	673,190	1,832,751

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

The following new standards and amendments to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2020, but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
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 HKFRS 9, HKAS 39 and HKFRS 7, 'Hedge accounting'	1 January 2020
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 contracts'	1 January 2021

The Group will adopt the above new standards and amendments 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.

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 right-of-use assets), 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:

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 right-of-use assets 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

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.

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 note 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

As explained in note 2(a)(II) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2(a)(II).

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (note 34). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) LEASES (CONTINUED)

(I) THE GROUP IS THE LESSEE (CONTINUED)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and

- makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

- any initial direct costs, and

- restoration costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) LEASES (CONTINUED)

(I) THE GROUP IS THE LESSEE (CONTINUED)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(II) THE GROUP IS THE LESSOR

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 14). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(s) 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)

(s) 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)

(s) 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.

(t) 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)

(t) 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.

(u) 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.

(v) 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)

(w) EARNINGS PER SHARE

(I) BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(II) DILUTED EARNINGS PER SHARE

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) DIVIDEND INCOME

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

(y) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

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.

(z) 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.

(aa) 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.

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) FINANCIAL RISK FACTORS (CONTINUED)

(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 2019, if major currencies such as Renminbi, Taiwan dollar and Euro, to which the Group had exposure had strengthened/weakened by 5% (2018: 5%) against HK dollar with all variables held constant, there would have insignificant impact on the Group's profit for the year. 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.

The aggregate net foreign exchange losses recognised in profit or loss were HK$3,432,000.

(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 2019, 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$16,212,000 (2018: HK$21,059,000) 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 AND OTHER 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.

  To assess whether there is a significant increase in credit risk in accounts and other receivables, the Group compares the risk of a default occurring on the assets at the end of each reporting period with the risk of default occurring on the assets at the end of each reporting period with the risk of default at the date of initial recognition. It considers available, reasonable, supportive forward-looking information. Especially, the following indicators are incorporated:

  - external credit rating of the counterparty (as far as available);
  - actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
  - actual or expected significant changes in the operating results of the counterparty; and
  - significant expected changes in the performance and behaviour of the counterparty, including changes in the payment status of the counterparty and changes in the operating results of the counterparty.

A default on trade and other receivables is when the counterparty fails to make contractual payments when they fall due.

Trade and other receivables are written off when there is no reasonable expectation of recovery.

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%-3.6%.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) FINANCIAL RISK FACTORS (CONTINUED)

(II) CREDIT RISK (CONTINUED)

- ***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 3 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
At 31 December 2019						
Bank loans	2,160,632	3,142,412	3,249,467	122,081	8,674,592	8,121,610
Accounts payable, deposits received and accrued charges	7,387,785	–	–	–	7,387,785	7,387,785
Bank overdrafts	233,750	–	–	–	233,750	233,750
Loans from non-controlling interests	–	223,805	–	–	223,805	223,805
Amounts due to related companies	28,729	–	–	–	28,729	28,729
Lease liabilities	1,070,557	814,214	890,270	1,253,555	4,028,596	3,507,465
Other non-current liabilities	–	1,259,232	165,378	–	1,424,610	1,424,610
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

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 2019 and 2018 were as follows:

	2019 HK$ million	2018 HK$ million
Bank loans and overdrafts	8,355	9,700
Equity attributable to the Company's shareholders excluding put option written on non-controlling interests	24,176	21,214
Gearing ratio	34.6%	45.7%

The Group's overall strategy remains unchanged throughout the year. The decrease was mainly attributable to the settlement of bank loans using the proceeds resolved from sale 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).

(c) FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's financial investments that are measured at fair value as at 31 December 2019 and 2018:

At 31 December 2019	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Investment in convertible bonds	–	–	540,983	540,983
Financial assets at fair value through other comprehensive income	–	–	150,843	150,843
Financial assets at fair value through profit or loss	–	119,731	–	119,731
Total assets	–	119,731	691,826	811,557
Liability				
Put options written on non-controlling interests	–	–	1,163,848	1,163,848

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

There were no transfers between levels during the year (2018: 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 2019	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	118,185	543,762	1,171,600
Fair value adjustment	(183)	–	–
Additions	60,494	–	–
Disposals	(29,141)	–	–
Exchange adjustment	1,488	(2,779)	419
Settlement	–	–	(8,171)
At end of year	150,843	540,983	1,163,848

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

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 (2018: 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 2019 and 2018:

- 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 (2017 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. The fair values of the investment properties are determined based on the conditions as of 31 December 2019 and the impact of any non-adjusting subsequent events (if any) will be considered in the valuation of these properties in 2020.

(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. The recoverable amounts of the relevant cash generating units were determined based on the conditions as of 31 December 2019 and the impact of any non-adjusting subsequent events (if any) will be considered in the goodwill impairment test to be performed in 2020.

(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, right-of-use assets, 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 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 2019 (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.

(III) DETERMINATION OF THE LEASE TERM

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

(III) DETERMINATION OF THE LEASE TERM (CONTINUED)

For leases of equipment, buildings and motor vehicles, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

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

	2019 HK$'000	2018 HK$'000
Integrated Logistics		
Logistics Operations	19,243,537	16,526,529
Hong Kong Warehouse	268,279	340,661
International Freight Forwarding	21,627,286	21,271,338
	41,139,102	38,138,528

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 2019, together with comparative figures for the year ended 31 December 2018, is as follows:

	For the year ended 31 December									
	Integrated logistics									
	Logistics operations		Hong Kong warehouse		International freight forwarding		Elimination		Consolidation	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Revenue										
Revenue	19,243,537	16,526,529	268,279	340,661	21,627,286	21,271,338	–	–	41,139,102	38,138,528
Inter-segment revenue	462,335	434,620	474,868	431,667	5,408,118	4,194,555	(6,345,321)	(5,060,842)	–	–
	19,705,872	16,961,149	743,147	772,328	27,035,404	25,465,893	(6,345,321)	(5,060,842)	41,139,102	38,138,528
Revenue by geographical area:										
Hong Kong	4,680,000	4,108,434	743,147	772,328	2,074,387	1,881,532	(1,819,654)	(1,623,298)	5,677,880	5,138,996
Mainland China	4,498,186	4,332,923	–	–	8,877,845	7,700,826	(2,585,910)	(2,043,601)	10,790,121	9,990,148
Taiwan	3,012,174	2,700,353	–	–	449,984	446,655	(195,953)	(173,463)	3,266,205	2,973,545
Asia	7,373,764	5,676,211	–	–	5,122,264	4,521,047	(1,076,596)	(647,011)	11,419,432	9,550,247
Americas	–	–	–	–	5,938,156	6,736,931	(484,631)	(430,109)	5,453,525	6,306,822
Europe	–	–	–	–	4,073,021	3,700,065	(154,083)	(116,192)	3,918,938	3,583,873
Others	141,748	143,228	–	–	499,747	478,837	(28,494)	(27,168)	613,001	594,897
	19,705,872	16,961,149	743,147	772,328	27,035,404	25,465,893	(6,345,321)	(5,060,842)	41,139,102	38,138,528
Segment profit by geographical area:										
Hong Kong	389,670	316,253	540,971	559,545	50,165	47,559	–	–	980,806	923,357
Mainland China	264,644	216,366	–	–	207,209	167,886	–	–	471,853	384,252
Taiwan	480,876	404,515	–	–	20,482	21,677	–	–	501,358	426,192
Asia	713,063	584,085	–	–	113,696	104,172	–	–	826,759	688,257
Americas	–	–	–	–	191,224	177,265	–	–	191,224	177,265
Europe	–	–	–	–	18,152	13,488	–	–	18,152	13,488
Others	46,053	29,701	–	–	21,162	17,217	–	–	67,215	46,918
	1,894,306	1,550,920	540,971	559,545	622,090	549,264	–	–	3,057,367	2,659,729
Less: Unallocated administrative expenses									(292,380)	(295,404)
Core operating profit									2,764,987	2,364,325
Finance income									40,720	43,436
Finance costs									(358,171)	(224,245)
Share of results of associates and joint ventures									85,530	110,734
Profit before taxation*									2,533,066	2,294,250
Taxation*									(605,417)	(527,601)
Profit for the year*									1,927,649	1,766,649
Non-controlling interests*									(553,551)	(440,319)
Core net profit									1,374,098	1,326,330
Change in fair value of investment properties									482,873	1,097,933
Deferred tax on change in fair value of investment properties									16,466	21,040
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									2,474	8,472
Gain on disposal of warehouses									1,957,540	–
Fair value change of financial instruments									–	(14,000)
Impairment									(45,128)	–
Profit attributable to the Company's shareholders									3,788,323	2,439,775
Depreciation and amortisation	1,574,404	544,763	50,476	54,477	296,423	179,996			1,921,303	779,236

* Excluding the change in fair value of investment properties and its related deferred tax, gain on disposal of warehouses, fair value change of financial instruments and 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.

	2019				2018			
By operating segment	Revenue recognised at a point in time HK$'000	Revenue recognised over time HK$'000	Rental income HK$'000	Total HK$'000	Revenue recognised at a point in time HK$'000	Revenue recognised over time HK$'000	Rental income HK$'000	Total HK$'000
Revenue from contracts with customers								
Integrated logistics								
– Logistics operations (note)	1,836,605	17,298,245	108,687	19,243,537	1,646,045	14,760,756	119,728	16,526,529
– Hong Kong warehouse	–	23,028	245,251	268,279	–	29,339	311,322	340,661
International freight forwarding	–	21,627,286	–	21,627,286	–	21,271,338	–	21,271,338
	1,836,605	38,948,559	353,938	41,139,102	1,646,045	36,061,433	431,050	38,138,528

	2019				2018			
By geographical area	Revenue recognised at a point in time HK$'000	Revenue recognised over time HK$'000	Rental income HK$'000	Total HK$'000	Revenue recognised at a point in time HK$'000	Revenue recognised over time HK$'000	Rental income HK$'000	Total HK$'000
Revenue from contracts with customers								
Hong Kong	1,800,381	3,631,333	246,166	5,677,880	1,644,375	3,183,299	311,322	5,138,996
Mainland China	3,341	10,705,404	81,376	10,790,121	1,670	9,900,701	87,777	9,990,148
Taiwan	32,883	3,233,322	–	3,266,205	–	2,973,545	–	2,973,545
Asia	–	11,393,036	26,396	11,419,432	–	9,518,296	31,951	9,550,247
Americas	–	5,453,525	–	5,453,525	–	6,306,822	–	6,306,822
Europe	–	3,918,938	–	3,918,938	–	3,583,873	–	3,583,873
Others	–	613,001	–	613,001	–	594,897	–	594,897
	1,836,605	38,948,559	353,938	41,139,102	1,646,045	36,061,433	431,050	38,138,528

Note: Revenue from logistic operations which was recognised at a point in time is represented the revenue from sales of goods for the year.

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 revenue from provision of logistics services, warehouse leasing and sales of goods.

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

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

Segment revenue 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, gain on disposal of warehouses, fair value change of financial instruments and impairment.

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

	Segment non-current assets #	
	2019 HK$'000	2018 HK$'000
Hong Kong	10,363,487	11,083,800
Mainland China	6,121,817	4,904,953
Taiwan	4,989,208	3,464,146
Asia	8,137,129	6,380,010
Americas	1,070,729	960,427
Europe	907,363	769,337
Others	199,224	136,990
	31,788,957	27,699,663

Other than financial assets at fair value through other comprehensive income, 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 2019.

6 OTHER INCOME AND NET GAINS

	2019 HK$'000	2018 HK$'000
Interest income from banks	35,230	37,761
Interest income from associates	5,490	5,675
Interest income from convertible bonds	21,069	21,096
Dividend income from financial assets at fair value through other comprehensive income	13,188	10,643
Gain on disposal of property, plant and equipment	76,135	38,729
Gain on disposal of financial asset at fair value through profit or loss	39,673	–
Loss on disposal of associates	(2,004)	(424)
Gain on disposal of subsidiaries (note)	43,870	84,086
Fair value change of financial assets at fair value through profit or loss	12,278	(21,104)
Impairment of associates	(3,276)	–
Goodwill impairment	(41,852)	–
	199,801	176,462

Note: The disposal of warehouses is considered as disposal of subsidiaries for the year, and is disclosed in notes 32(c) and 37(c).

7 EXPENSES BY NATURE

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

	2019 HK$'000	2018 HK$'000
Auditors' remuneration	29,035	24,545
Business tax and other taxes	10,764	13,543
Cost of goods sold	1,600,362	1,515,436
Freight and transportation costs	27,381,206	26,700,541
Depreciation of property, plant and equipment (note 16)	820,292	662,315
Depreciation of right-of-use assets (note 15(b))	965,603	–
Amortisation of leasehold land and land use rights (note 15(a))	–	10,262
Amortisation of intangible assets (note 13)	135,408	106,659
Provision for impairment of receivables (note 22)	93,785	64,678
Reversal of provision for impairment of receivables (note 22)	(3,176)	(1,963)
Rental expenses on land and buildings	341,081	788,416
Employee benefit expenses (note 12)	6,226,329	5,197,302

8 FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expenses on bank loans and overdrafts	245,888	224,245
Interest expenses on lease liabilities	112,283	–
	358,171	224,245

9 TAXATION

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) for the year ended 31 December 2019 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% (2018: 25%) on the estimated assessable profit for the year.

WITHHOLDING TAX ON DISTRIBUTED/UNDISTRIBUTED PROFITS

Withholding tax in the Group's subsidiaries, associates and joint ventures 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.

	2019 HK$'000	2018 HK$'000
Hong Kong profits tax		
– Current	153,241	134,321
– Under/(overprovision) in prior years	1,908	(614)
– Deferred	(3,229)	(835)
	151,920	132,872
PRC taxation		
– Current	81,770	89,836
– Under/(overprovision) in prior years	939	(589)
– Deferred	9,892	(13,974)
	92,601	75,273
Overseas taxation		
– Current	373,633	300,673
– Overprovision in prior years	(4,177)	(18,635)
– Deferred	(25,026)	16,378
	344,430	298,416
	588,951	506,561

The Group's share of associates' and joint ventures' taxation for the year ended 31 December 2019 is HK$17,635,000 (2018: HK$18,869,000) 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:

	2019 HK$'000	2018 HK$'000
Profit before taxation	4,928,351	3,378,183
Less: Share of results of associates and joint ventures	(85,530)	(110,734)
	4,842,821	3,267,449
Calculated at Hong Kong profits tax rate of 16.5% (2018: 16.5%)	799,065	539,129
Tax effect of different taxation rates in other countries	77,955	80,665
Income not subject to taxation	(417,791)	(194,906)
Expenses not deductible in determining taxable profit	81,839	69,932
Tax losses not recognised	33,797	23,189
Utilisation of previously unrecognised tax losses	(1,752)	(1,956)
Overprovision in prior years	(1,330)	(19,838)
Withholding tax on undistributed profits	17,168	10,346
Taxation charge	588,951	506,561

10 DIVIDENDS

A final dividend in respect of the year ended 31 December 2019 of 18 HK cents per share, amounting to a total dividend of HK$308,917,000 is to be proposed at the annual general meeting on 29 May 2020. These financial statements do not reflect this dividend payable.

	2019 HK$'000	2018 HK$'000
Interim dividend paid of 9 HK cents (2018: 9 HK cents) per ordinary share	154,326	153,032
Special dividend paid of 35 HK cents (2018: 12 HK cents) per ordinary share	599,964	204,041
Proposed final dividend of 18 HK cents (2018: 16 HK cents) per ordinary share	308,917	272,842
	1,063,207	629,915

The proposed final dividend for the year ended 31 December 2019, as referred to above, is calculated on the basis of 1,716,203,112 ordinary shares in issue as at 31 December 2019, and at a final dividend of 18 HK cents per ordinary share. The actual amount of final dividend payable in respect of the year ended 31 December 2019 will be subject to the actual number of ordinary shares in issue on the record date 4 June 2020.

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.

	2019	2018
Adjusted weighted average number of ordinary shares in issue	1,711,917,478	1,698,719,179
Profit attributable to the Company's shareholders (HK$'000)	3,788,323	2,439,775
Basic earnings per share (HK$)	2.21	1.44

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.

	2019	2018
Adjusted weighted average number of ordinary shares in issue	1,711,917,478	1,698,719,179
Adjustment for share options	4,500,235	3,812,012
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,716,417,713	1,702,531,191
Profit attributable to the Company's shareholders (HK$'000)	3,788,323	2,439,775
Diluted earnings per share (HK$)	2.21	1.43

12 EMPLOYEE BENEFIT EXPENSES

	2019 HK$'000	2018 HK$'000
Staff costs, including directors' emoluments	5,877,004	4,893,944
Pension costs		
– defined contribution plans	341,018	298,245
– defined benefit plans (note 31(b))	8,307	5,113
	6,226,329	5,197,302

Out of the total employee benefit expenses for the year ended 31 December 2019 of HK$6,226,329,000 (2018: HK$5,197,302,000), HK$4,294,357,000 (2018: HK$3,488,899,000) 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 2019, 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 (retirement effective from 31 May 2019)	–	1,750	5,000	125	–	8	6,883
KUOK Khoon Hua	1,550	–	5,000	–	–	–	6,550
MA Wing Kai William	–	5,880	17,830	–	–	120	23,830
NG Kin Hang (appointment effective from 1 January 2019)	–	2,400	1,825	369	100	120	4,814
TONG Shao Ming (appointment effective from 1 June 2019)	275	–	–	–	–	–	275
CHIN Siu Wa Alfred (retirement effective from 31 May 2019)	185	–	–	–	–	–	185
WONG Yu Pok Marina	595	–	–	–	–	–	595
WAN Kam To (retirement effective from 31 May 2019)	211	–	–	–	–	–	211
YEO Philip Liat Kok	419	–	–	–	–	–	419
KHOO Shulamite N K	465	–	–	–	–	–	465
ZHANG Yi Kevin	515	–	–	–	–	–	515

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 (resignation effective from 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

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 eleven (2018: eleven) senior executives who report to the Board of Directors as senior management. The emoluments of the eleven (2018: eleven) individuals, excluding share option benefits, are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other short-term benefits	59,037	50,521

(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 2019, no KPL share was issued to director of the Company pursuant to exercise of the share options (2018: 1,390,000 shares).

As at 31 December 2019, 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
250,000	HK$35.45	31/10/2013 – 29/04/2022

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

The closing market price of the KPL shares as at 31 December 2019 was HK$24.75 (2018: HK$26.75).

(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 2019, 3,300,000 Shares were issued to directors of the Company pursuant to exercise of the share options (2018: 100,000 Shares).

As at 31 December 2019, 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		
2,160,000	HK$10.20	19/12/2013 – 01/12/2023
2,160,000	HK$10.20	02/12/2014 – 01/12/2023
Post-IPO share options		
600,000	HK$12.26	09/01/2015 – 08/01/2020
600,000	HK$12.26	09/01/2016 – 08/01/2020

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)

The closing market price of the Company's shares as at 31 December 2019 was HK$13.38 (2018: HK$11.62).

(e) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 included one Director (2018: three). The emoluments payable to the remaining four (2018: two) highest paid individuals during the years are as follows:

	2019 HK$'000	2018 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	17,028	8,636
Discretionary bonuses	14,610	7,689
Pension contributions	278	120
	31,916	16,445

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
HK$6,500,001 – HK$7,000,000	1	–
HK$7,000,001 – HK$7,500,000	–	–
HK$7,500,001 – HK$8,000,000	–	–
HK$8,000,001 – HK$8,500,000	2	1
HK$8,500,001 – HK$9,000,000	1	1
	4	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	
	2019	2018
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
HK$3,000,001 – HK$3,500,000	2	1
HK$3,500,001 – HK$4,000,000	3	2
HK$4,000,001 – HK$4,500,000	–	2
HK$4,500,001 – HK$5,000,000	1	–
HK$5,000,001 – HK$5,500,000	1	–
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	1	–
HK$7,000,001 – HK$7,500,000	–	–
HK$7,500,001 – HK$8,000,000	–	1
HK$8,000,001 – HK$8,500,000	2	–
HK$8,500,001 – HK$9,000,000	1	1
	11	11

13 INTANGIBLE ASSETS

	Goodwill HK$'000	Customer relationships HK$'000	Non-compete agreements HK$'000	Trademarks HK$'000	Total HK$'000
At 1 January 2018	3,250,784	524,599	50,669	58,430	3,884,482
Acquisition of subsidiaries	328,187	204,362	19,843	–	552,392
Amortisation	–	(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
At 1 January 2019	3,506,568	643,646	56,543	44,120	4,250,877
Acquisition of subsidiaries (note 33)	429,016	253,947	22,813	–	705,776
Amortisation (note 7)	–	(105,237)	(17,873)	(12,298)	(135,408)
Impairment	(41,852)	–	–	–	(41,852)
Exchange adjustment	(12,668)	(1,637)	(218)	34	(14,489)
At 31 December 2019	3,881,064	790,719	61,265	31,856	4,764,904
At 31 December 2019					
Cost	4,043,527	1,176,617	135,658	89,914	5,445,716
Accumulated amortisation and impairment	(162,463)	(385,898)	(74,393)	(58,058)	(680,812)
	3,881,064	790,719	61,265	31,856	4,764,904

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:

	2019 HK$'000	2018 HK$'000
Logistics operations		
Hong Kong	176,533	102,632
PRC	317,268	197,126
Taiwan	394,127	345,335
Asia	105,073	143,572
Others	9,707	9,798
	1,002,708	798,463
International freight forwarding		
Hong Kong	84,533	84,533
PRC	553,579	487,865
Taiwan	103,626	77,076
Asia	785,368	758,116
Europe	560,060	506,191
Americas	754,047	756,588
Others	37,143	37,736
	2,878,356	2,708,105
	3,881,064	3,506,568

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 five years. Cash flows beyond the five years are extrapolated using the estimated growth rates stated below:

KEY ASSUMPTIONS USED FOR VALUE-IN-USE CALCULATIONS

For the year ended 31 December 2019

LOGISTICS OPERATIONS

	Hong Kong	PRC	Asia
Gross margin	5%-12%	3%-4%	1%-30%
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 2019

INTERNATIONAL FREIGHT FORWARDING

	Hong Kong	PRC	Asia	Europe	Americas
Gross margin	5%	1%-5%	1%-8%	2%-3%	3%-6%
Growth rate	3%	3%	2%-5%	2%-6%	2%-7%
Discount rate	12%	12%	11%-16%	10%	10%-13%

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%

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%

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$12,985,000 (2018: HK$26,115,000) would be required for the goodwill in Asia at 31 December 2019.

14 INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
At beginning of year	11,039,020	9,892,482
Additions	9,352	75,460
Change in fair value	482,873	1,097,933
Disposals of subsidiaries (note 32(c))	(1,625,710)	–
Transfer	416,895	20,097
Exchange adjustment	(14,291)	(46,952)
At end of year	10,308,139	11,039,020

(a) Investment properties were valued by independent professional valuer, namely Cushman & Wakefield Limited as at 31 December 2019 and 31 December 2018, by mainly adopting the investment approach of valuation.

(b) The Group's investment properties at their net book values are analysed as follows:

	2019 HK$'000	2018 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	8,623,350	9,686,800
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	1,684,789	1,352,220
	10,308,139	11,039,020

As at 31 December 2019, investment properties amounting to HK$295,514,000 (2018: HK$515,417,000) were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35).

(c) As at 31 December 2019, rental income of HK$353,938,000 and direct operating expenses of HK$155,031,000 (from property that generated rental income) 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 2019	9,686,800	861,448	490,772	11,039,020
Change in fair value	552,908	(58,267)	(11,768)	482,873
Additions	9,352	–	–	9,352
Disposals of subsidiaries	(1,625,710)	–	–	(1,625,710)
Transfer	–	416,895	–	416,895
Exchange adjustment	–	(15,669)	1,378	(14,291)
At 31 December 2019	8,623,350	1,204,407	480,382	10,308,139

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 2019. 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:

	2019	2018
Capitalisation rate	5.5% – 8.8%	5.5% – 8.8%

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%.

	2019 HK$'000	2018 HK$'000
Decrease of capitalisation rate by 10%	1,018,894	1,052,100
Increase of capitalisation rate by 10%	(801,003)	(844,000)

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%.

	2019 HK$'000	2018 HK$'000
Decrease of reversionary income by 10%	(622,543)	(861,400)
Increase of reversionary income by 10%	812,055	955,400

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 (2018: nil).

Minimum lease payments receivable on leases of investment properties are as follows:

	2019 HK$'000	2018 HK$'000
Land and buildings:		
Within one year	324,839	304,447
In the second to fifth year, inclusive	594,978	506,070
Over five years	139,990	181,353
	1,059,807	991,870

15a LEASEHOLD LAND AND LAND USE RIGHTS

	2019 HK$'000	2018 HK$'000
At beginning of year	590,450	625,550
Reclassification to right-of-use assets on adoption of HKFRS 16 (Note 2(a)(II))	(590,450)	–
Additions	–	16,313
Amortisation	–	(10,262)
Disposal of subsidiaries	–	(10,561)
Exchange adjustment	–	(30,590)
At end of year	–	590,450

15b LEASES

As at 31 December 2019, leasehold land and land use rights amounting to HK$87,137,000 (2018: HK$90,344,000) were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35).

This note provides information for leases where the Group is a lessee.

(I) AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2019 HK$'000	1 January 2019 HK$'000
Right-of-use assets		
Leasehold land and land use rights	502,629	590,450
Equipment	40,664	29,629
Buildings	2,725,108	1,829,715
Motor vehicles	717,241	646,597
	3,985,642	3,096,391
Lease liabilities		
Current	961,585	673,190
Non-current	2,545,880	1,832,751
	3,507,465	2,505,941

(II) AMOUNTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement shows the following amounts relating to leases:

	Note	2019 HK$'000	2018 HK$'000
Depreciation charge of right-of-use assets			
Leasehold land and land use rights		10,526	–
Equipment		14,486	–
Buildings		687,716	–
Motor vehicles		252,875	–
	7	965,603	–
Interest expense (included in finance cost)	8	112,283	–
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)		422,193	–

The total cash outflow for leases in 2019 was HK$1,397,899,000.

(III) THE GROUP'S LEASING ACTIVITIES AND HOW THESE ARE ACCOUNTED FOR

The Group leases various equipment, buildings and motor vehicles. Rental contracts are typically made for fixed periods of 2 months to 53 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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 2019	2,275,411	899	4,117,489	827,050	895,733	3,209,625	1,391,979	826,557	13,544,743
Additions, at cost	37,990	–	121,829	886	198,195	517,903	376,821	427,768	1,681,392
Acquisition of subsidiaries (note 33)	–	–	365,356	–	783	22,780	6,785	1,010	396,714
Disposals	(711)	(281)	(86,634)	–	(24,205)	(113,696)	(79,659)	–	(305,186)
Disposal of subsidiaries	(61,997)	–	–	–	(4,313)	(8,581)	(5,546)	–	(80,437)
Transfer/ reclassification	(25,882)	–	103,806	–	54,466	(39,171)	19,065	(455,190)	(342,906)
Exchange adjustment	(27,031)	(1)	139,438	66,928	12,576	126,122	24,094	(2,885)	339,241
At 31 December 2019	2,197,780	617	4,761,284	894,864	1,133,235	3,714,982	1,733,539	797,260	15,233,561
Accumulated depreciation									
At 1 January 2019	436,526	132	419,726	154,050	480,742	1,056,449	650,071	–	3,197,696
Charge for the year	57,150	16	79,705	16,533	117,215	314,732	234,941	–	820,292
Disposals	(350)	–	(27,081)	–	(17,541)	(84,531)	(60,374)	–	(189,877)
Disposal of subsidiaries	(17,132)	–	–	–	(908)	(6,212)	(1,554)	–	(25,806)
Transfer/ reclassification	(4,799)	–	–	–	(1,583)	(5,094)	9,943	–	(1,533)
Exchange adjustment	(5,311)	175	21,399	12,984	7,950	48,560	3,493	–	89,250
At 31 December 2019	466,084	323	493,749	183,567	585,875	1,323,904	836,520	–	3,890,022
Net book value									
As at 31 December 2019	1,731,696	294	4,267,535	711,297	547,360	2,391,078	897,019	797,260	11,343,539

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 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	–	–	–	–	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)

(a) As at 31 December 2019 and 2018, 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:

	2019 HK$'000	2018 HK$'000
Freehold land and buildings	1,700,175	1,495,055
Warehouse and logistics centres	72,542	78,844
Port facilities	711,297	673,000
	2,484,014	2,246,899

(b) The Group's freehold land and buildings and port facilities are located outside Hong Kong.

17 ASSOCIATES AND JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Share of net assets (note (b))	1,291,709	1,280,978
Amounts due from associates and joint ventures (note (c), (d))	95,024	191,290
	1,386,733	1,472,268

(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 2019	Interest held indirectly 2018
(4)(5)	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%
(3)	Chiwan Container Terminal Co., Ltd.	PRC	Port operation	US$95,300,000	25%	25%
(5)	PT. Puninar Saranaraya	Indonesia	Logistics business	Ordinary	15%	15%

Notes:

(1) *English translation of name only*
(2) *Foreign equity joint venture enterprise*
(3) *Sino-foreign equity joint venture enterprise*
(4) *Companies having a financial accounting period which is not conterminous with the Group*
(5) *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:

	2019 HK$'000	2018 HK$'000
Aggregate attributable amounts of total assets	2,110,205	1,998,790
Aggregate attributable amounts of total liabilities	818,496	717,812
Aggregate attributable amounts of total revenue	1,089,211	741,701
Aggregate attributable amounts of net profit after tax	85,530	110,734

(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$80,658,000 (2018: HK$188,824,000) which bear interests at 2%-4.35% per annum (2018: 2%-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:

	2019 HK$'000	2018 HK$'000
Renminbi	78,842	189,344
Hong Kong dollar	16,182	1,665
Other currencies	–	281
	95,024	191,290

(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

	2019 HK$'000	2018 HK$'000
Listed equity securities, at fair value	–	52,614
Unlisted equity securities, at fair value	150,843	118,185
	150,843	170,799

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 has subscribed 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$349,194,000 ("Principal Amount"). The Maturity Date has been extended to 30 June 2020. KLN Singapore may at any time up to the date which is one month prior to 30 June 2020, 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 7.41% 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 2019 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

	2019 HK$'000	2018 HK$'000
Finished goods	504,671	425,217

The cost of inventories recognised as expenses and included in direct operating expenses for the year ended 31 December 2019 amounted to HK$1,600,362,000 (2018: HK$1,515,436,000).

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Unlisted equity securities, at fair value designated as financial assets at fair value through profit or loss	119,731	103,501
Listed equity securities designated as financial assets at fair value through profit or loss	–	158,383
	119,731	261,884

Changes in fair value of financial assets at fair value through profit or loss of HK$12,278,000 are recorded in 'other income and net gains' in the consolidated income statement (note 6).

22 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	2019 HK$'000	2018 HK$'000
Trade receivables	8,194,264	7,685,352
Less: Provision for impairment of receivables (note (c))	(218,080)	(151,719)
Trade receivables – net	7,976,184	7,533,633
Prepayments (note (d))	435,127	454,707
Deposits (note (e))	363,722	304,996
Others (note (f))	1,373,933	1,209,553
	10,148,966	9,502,889

Notes:

(a) *The ageing analysis of the trade receivables based on date of the invoice and net of provision for impairment is as follows:*

	2019 HK$'000	2018 HK$'000
Below 1 month	4,706,129	4,372,337
Between 1 month and 3 months	2,631,011	2,662,406
Over 3 months	639,044	498,890
	7,976,184	7,533,633

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 2019, trade receivables of HK$218,080,000 (2018: HK$151,719,000) were impaired and provided for.*

Movements on the provision for impairment of receivables are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	151,719	104,872
Provision for impairment of receivables (note 7)	93,785	64,678
Reversal of provision (note 7)	(3,176)	(1,963)
Receivables written off during the year as uncollectible	(20,638)	(6,237)
Exchange adjustment	(3,610)	(9,631)
At end of year	218,080	151,719

(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:*

	2019 HK$'000	2018 HK$'000
Renminbi	3,370,447	2,839,768
Hong Kong dollar	1,089,597	1,410,503
Taiwan dollar	708,294	686,463
Thai Baht	871,467	753,485
United States dollar	1,395,421	1,213,508
Euro	1,105,677	932,097
Pound sterling	105,126	121,051
Indian Rupee	393,401	397,526
Malaysian Ringgit	177,919	156,403
United Arab Emirates Dirham	206,895	201,336
Australian dollar	79,365	76,976
Vietnamese Dong	73,729	85,103
Other currencies	571,628	628,670
	10,148,966	9,502,889

(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$31,893,000 (2018: HK$27,363,000) 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 2019, the Group's bank balances amounting to approximately HK$20,622,000 (2018: HK$20,148,000) represented deposits pledged to secure general banking facilities granted to the Group.

(b) CASH AND CASH EQUIVALENTS

	2019 HK$'000	2018 HK$'000
Cash at bank and in hand	4,857,973	4,037,416
Short-term bank deposits	967,273	268,533
Cash and bank balances	5,825,246	4,305,949

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2019 HK$'000	2018 HK$'000
Cash and bank balances	5,825,246	4,305,949
Secured bank overdrafts	(50,076)	(46,561)
Unsecured bank overdrafts	(183,674)	(146,515)
	5,591,496	4,112,873

Cash and cash equivalents are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
Renminbi	1,712,343	1,478,173
Hong Kong dollar	1,041,675	732,831
United States dollar	947,690	521,373
Taiwan dollar	655,254	518,900
Pound sterling	71,182	83,016
Vietnamese Dong	88,310	124,797
Singapore dollar	132,285	127,586
Other currencies	942,757	526,197
	5,591,496	4,112,873

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

	2019 HK$'000	2018 HK$'000
Trade payables	3,960,554	3,707,939
Accrued charges (note (c))	1,302,757	1,074,435
Customer deposits	148,232	137,307
Consideration payable for business combinations	404,624	366,606
Others (note (d))	2,996,228	3,021,392
	8,812,395	8,307,679
Less: Non-current consideration payable for business combinations	(290,487)	(348,513)
Non-current written put option liabilities (note (e))	(1,134,123)	(1,163,428)
	7,387,785	6,795,738

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:

	2019 HK$'000	2018 HK$'000
Below 1 month	2,482,882	2,322,677
Between 1 month and 3 months	1,012,311	761,110
Over 3 months	465,361	624,152
	3,960,554	3,707,939

(b) The carrying amounts of the Group's accounts payable, deposits received and accrued charges are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
Renminbi	2,394,822	2,207,982
Hong Kong dollar	945,566	963,908
Taiwan dollar	673,104	530,556
United States dollar	1,990,961	1,944,676
Euro	821,668	764,236
Pound sterling	125,811	124,673
Thai baht	1,088,357	1,014,829
Indian Rupee	154,584	104,808
Malaysian Ringgit	146,863	114,105
Other currencies	470,659	537,906
	8,812,395	8,307,679

(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 and 2020 have been extended to 2021. 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.

26 SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Authorised, issued and fully paid:		
1,716,203,112 ordinary shares of HK$0.5 each (2018: 1,705,263,112 ordinary shares of HK$0.5 each)	858,102	852,632

	2019		2018	
	No. of shares	HK$'000	No. of shares	HK$'000
At 1 January	1,705,263,112	852,632	1,696,087,112	848,044
Exercise of pre-IPO share option scheme allotment	8,000,000	4,000	9,166,000	4,583
Exercise of post-IPO share option scheme allotment	2,940,000	1,470	10,000	5
At 31 December	1,716,203,112	858,102	1,705,263,112	852,632

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$'000	FVOCI reserve HK$'000	Total HK$'000
At 1 January 2019	3,108,610	142,934	38,553	577,746	144,724	(352,425)	(519,559)	(400)	3,140,183
Net translation differences on foreign operations	–	–	–	–	–	83,796	–	–	83,796
Exercise of pre-IPO share option scheme allotment	87,146	–	(9,546)	–	–	–	–	–	77,600
Exercise of post-IPO share option scheme allotment	40,307	–	(5,733)	–	–	–	–	–	34,574
Change in ownership of interests in subsidiaries without change of control	–	–	–	–	–	–	(5,297)	–	(5,297)
Transfers from retained profits	–	–	–	(396,871)	48,073	–	–	(1,161)	(349,959)
Fair value change on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	11,592	11,592
Share option lapsed	–	–	(274)	–	–	–	–	–	(274)
At 31 December 2019	3,236,063	142,934	23,000	180,875	192,797	(268,629)	(524,856)	10,031	2,992,215

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$'000	FVOCI reserve HK$'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
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

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:

	2019 HK$'000	2018 HK$'000
Renminbi	50,413	3,506
Hong Kong dollar	27,195	27,195
Other currencies	146,197	147,132
	223,805	177,833

29 BANK LOANS

	2019 HK$'000	2018 HK$'000
Non-current		
– unsecured	5,364,880	3,918,104
– secured (note 35)	808,910	651,460
	6,173,790	4,569,564
Current		
– unsecured	1,737,193	4,437,736
– secured (note 35)	210,627	499,166
	1,947,820	4,936,902
Total bank loans	8,121,610	9,506,466

(a) The maturity of bank loans is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 year	1,947,820	4,936,902
Between 1 and 2 years	2,981,607	2,185,439
Between 3 and 5 years	3,075,333	2,266,652
Repayable within 5 years	8,004,760	9,388,993
Over 5 years	116,850	117,473
	8,121,610	9,506,466

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:

	2019					
	United States dollar	Hongkong dollar	Singapore dollar	Renminbi	Thai baht	Taiwan dollar
Bank loans	3.41%	1.84%	3.13%	4.92%	2.35%	1.74%

	2018					
	United States dollar	Hongkong dollar	Singapore dollar	Renminbi	Thai baht	Taiwan dollar
Bank loans	3.44%	2.61%	3.43%	4.94%	2.85%	1.34%

(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:

	2019 HK$'000	2018 HK$'000
Hong Kong dollar	2,785,000	5,126,000
Taiwan dollar	3,004,868	2,697,473
United States dollar	512,842	624,653
Thai baht	665,616	560,940
Singapore dollar	490,052	89,971
Renminbi	526,863	312,987
Other currencies	136,369	94,442
	8,121,610	9,506,466

30 DEFERRED TAXATION

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2019 HK$'000	2018 HK$'000
Deferred tax assets		
– Deferred tax asset to be recovered after more than 12 months	(73,878)	(85,580)
Deferred tax liabilities		
– Deferred tax liability to be settled after more than 12 months	656,212	673,955
Deferred tax liabilities (net)	582,334	588,375

30 DEFERRED TAXATION (CONTINUED)

The movement on the deferred income tax account is as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	588,375	564,197
Acquisition of subsidiaries (note 33)	57,089	45,419
Disposal of subsidiaries (note 32(c))	(19,232)	–
Deferred taxation (credited)/charged to income statement (note 9)	(18,363)	1,569
Deferred taxation credited to other comprehensive income	(1,365)	(2,239)
Transfer to current tax liabilities upon the distribution of dividends	(15,987)	(12,068)
Exchange adjustment	(8,183)	(8,503)
At end of year	582,334	588,375

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 2019, the Group has unrecognised tax losses of HK$508,332,000 (2018: HK$357,160,000). These tax losses have no expiry dates except for the tax losses of HK$355,100,000 (2018: HK$313,072,000) which can be carried forward up to a maximum period of 9 years.

As at 31 December 2019, the aggregate amount of unrecognised deferred tax liabilities associated with undistributed earnings in subsidiaries totalled approximately HK$105,676,000 (2018: HK$91,710,000), 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 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	–	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
At 1 January 2019	(20,027)	408,825	292,245	(121,359)	28,691	588,375
Deferred taxation charged/(credited) to income statement	2,321	(19,600)	(24,237)	5,985	17,168	(18,363)
Deferred taxation credited to other comprehensive income	(1,365)	–	–	–	–	(1,365)
Acquisition of subsidiaries (note 33)	–	57,089	–	–	–	57,089
Disposal of subsidiaries (note 32(c))	–	(19,232)	–	–	–	(19,232)
Exchange adjustment	(1,756)	(6,427)	–	–	–	(8,183)
Transfer to current tax liabilities upon the distribution of dividends	–	–	–	–	(15,987)	(15,987)
At 31 December 2019	(20,827)	420,655	268,008	(115,374)	29,872	582,334

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 (2018: 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 Group operates a defined benefit pension plan for Kerry Express Thailand. The plan is valued by an independent qualified actuary, Mercer (Thailand) Limited, annually using the projected unit credit method.

The amounts recognised in the consolidated income statement were as follows:

	2019 HK$'000	2018 HK$'000
Current service cost	6,603	2,984
Interest cost, net	1,704	2,129
Total, included in staff costs (note 12)	8,307	5,113

Out of the total charge, for the year ended 31 December 2019, HK$6,662,000 (2018: HK$4,975,000) were included in direct operating expenses, and HK$1,645,000 (2018: HK$138,000) were included in administrative expenses, respectively.

The amounts recognised in the consolidated statement of financial position are as follows:

	2019 HK$'000	2018 HK$'000
Fair value of plan assets	141,820	138,143
Present value of funded obligations	(266,209)	(251,064)
Total pension liabilities	(124,389)	(112,921)

The movements in the fair value of plan assets for the year are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	138,143	125,922
Remeasurements	1,776	1,957
Employer contributions	23,757	36,668
Acquisition of subsidiaries (note 33)	807	–
Benefits paid	(29,725)	(26,041)
Exchange adjustment	7,062	(363)
At end of year	141,820	138,143

The movements in the present value of defined benefit obligations recognised in the consolidated statement of financial position are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	251,064	262,976
Current service cost	6,603	2,984
Interest cost	3,474	4,086
Remeasurements	25,211	14,359
Acquisition of subsidiaries (note 33)	5,470	–
Benefits paid	(29,725)	(26,041)
Exchange adjustment	4,112	(7,300)
At end of year	266,209	251,064

	2019 HK$'000	2018 HK$'000
Actual return on plan assets in the year	4,615	3,175

31 RETIREMENT BENEFITS (CONTINUED)

(b) DEFINED BENEFIT PLANS (CONTINUED)

The principal actuarial assumptions used are as follows:

	2019	2018
Discount rate applied to pension obligations	0.76%-1.80%	1.25%-3.25%
Future salary increases	1.00%-4.00%	1.00%-4.00%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Unfavourable change	
	2019 HK$'000	2018 HK$'000
Discount rate applied to pension obligations decreases by 0.5%	38,944	11,017
Future salary increases by 0.5%	38,713	10,986

	Favourable change	
	2019 HK$'000	2018 HK$'000
Discount rate applied to pension obligations increases by 0.5%	(33,875)	(10,026)
Future salary decreases by 0.5%	(33,928)	(10,095)

The fair value of plan assets comprised as follows.

	2019 HK$'000	2018 HK$'000
Cash and cash equivalents	29,158	23,692
Debt instruments	10,000	11,369
Equity instruments	102,662	103,082
	141,820	138,143

The experience adjustments of defined benefit plans as at 31 December 2019 and 2018 are as follows:

	2019 HK$'000	2018 HK$'000
Fair value of plan assets	141,820	138,143
Present value of pension obligations	(266,209)	(251,064)
Deficit	(124,389)	(112,921)

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 2020 is HK$23,757,000.

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to net cash generated from operations:

	2019 HK$'000	2018 HK$'000
Profit before taxation	4,928,351	3,378,183
Share of results of associates and joint ventures	(85,530)	(110,734)
Interest income	(40,720)	(43,436)
Interest income from investment in convertible bonds	(21,069)	(21,096)
Dividend income from financial assets at fair value through other comprehensive income	(13,188)	(10,643)
Finance costs	358,171	224,245
Fair value change of financial assets at fair value through profit or loss	(12,278)	21,104
Change in fair value of investment properties	(482,873)	(1,097,933)
Loss on disposal of associates	2,004	424
Gain on disposal of subsidiaries	(43,870)	(84,086)
Gain on disposal of warehouses	(1,957,540)	–
Gain on disposal of property, plant and equipment	(76,135)	(38,729)
Gain on disposal of financial assets at fair value through profit or loss	(39,673)	–
Provision for impairment of receivables	93,785	64,678
Reversal of provision for impairment of receivables	(3,176)	(1,963)
Amortisation of intangible assets	135,408	106,659
Depreciation of property, plant and equipment and amortisation of right-of-use assets	1,785,895	672,577
Gain on settlement of consideration payable for business combinations	–	(18,289)
Impairment of associates	3,276	–
Goodwill impairment	41,852	–
Operating cash flow before working capital changes	4,572,690	3,040,961
Increase in inventories, accounts receivable, prepayments and deposits and balances with fellow subsidiaries	(677,004)	(1,863,674)
Increase in current liabilities, excluding taxation, bank loans and bank overdrafts	171,605	1,198,618
Change in net pension liabilities	(15,449)	(31,579)
Net cash generated from operations	4,051,842	2,344,326

(b) Analysis of the net cash outflow in respect of the acquisition of subsidiaries treated as business combinations:

	2019 HK$'000	2018 HK$'000
Cash consideration paid	(692,883)	(624,597)
Cash consideration paid for prior year's acquisitions	(72,890)	(30,794)
Cash and bank balances acquired	127,928	234,351
Net cash outflow in respect of the acquisition of subsidiaries	(637,845)	(421,040)

(c) Disposal of subsidiaries

	HK$'000
Net assets disposed	
Property, plant and equipment (note 16)	54,631
Investment properties (note 14)	1,625,710
Right-of-use assets	14,802
Deferred tax liabilities (note 30)	(19,232)
Accounts payable, deposits received and accrued charges	(26,693)
Book value of net assets disposed	1,649,218

Analysis of gain on disposal of subsidiaries

	HK$'000
Consideration net of expenses incurred	3,650,628
Less: Net assets disposed	(1,649,218)
	2,001,410

(d) Transactions with non-controlling interests

During the year, the Group changed its ownership interests in certain subsidiaries without change of its control.

The effect of these transactions are summarised as follows:

	HK$'000
Net cash consideration paid to non-controlling interests	(5,257)
Consideration to be paid	4,599
Total consideration	(658)
Decrease in put options written on non-controlling interests	(8,171)
Net decrease in non-controlling interests	3,532
Changes in equity attributable to the Company's shareholders arising from changes in ownership of interests in subsidiaries without change of control	(5,297)

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(e) Reconciliation of liabilities arising from financing activities

	Bank loans HK$'000	Leases HK$'000	Loans from non-controlling interest HK$'000	Total HK$'000
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	(44,917)	–	–	(44,917)
Balance as at 31 December 2018	(9,506,466)	–	(177,833)	(9,684,299)
Balance as at 1 January 2019	(9,506,466)	–	(177,833)	(9,684,299)
Effect on adoption of HKFRS 16 (note 2(a)(II))	–	(2,505,941)	–	(2,505,941)
	(9,506,466)	(2,505,941)	(177,833)	(12,190,240)
Net cash flows	1,458,317	975,706	(46,050)	2,387,973
Foreign exchange adjustments	(73,461)	1,355	78	(72,028)
Interest on lease liabilities	–	(112,283)	–	(112,283)
Increase in lease liabilities from entering into new contracts	–	(1,492,463)	–	(1,492,463)
Acquisition of subsidiaries (note 33)	–	(373,839)	–	(373,839)
Balance as at 31 December 2019	(8,121,610)	(3,507,465)	(223,805)	(11,852,880)

33 BUSINESS COMBINATIONS

In January 2019, the Group acquired 51% interest in Kerry Cold Chain Solution, which is a cold chain solution logistics company based in China.

In January to March 2019, the Group acquired 51% interest in several international freight forwarding companies based in Taiwan, China and Indonesia.

In August 2019, the Group acquired 70% interest in ASAV Logistics Services Inc., which is engaged in international freight forwarding in Turkey. Pursuant to the sale and purchase agreement, the Group has committed to acquire the remaining 30% interests in 3 tranches over a period of three years. The remaining 30% interest has been accounted for as a deferred consideration payable and ASAV Logistics Services Inc. has been consolidated as a wholly owned subsidiary of the Group accordingly.

Aggregate consideration of the acquisition transactions is as follows:

	HK$'000
Cash consideration paid	692,883
Consideration to be paid	174,835
	867,718

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)	396,714
Right-of-use assets	374,024
Intangible assets	
– Customer relationships (note 13)	253,947
– Non-compete agreements (note 13)	22,813
Accounts receivable, prepayments and deposits	204,814
Cash and bank balances	127,928
Inventories	165
Tax recoverable	232
Accounts payable, deposits received and accrued charges	(258,492)
Lease liabilities	(373,839)
Pension liabilities	(4,663)
Taxation	(2,707)
Deferred taxation (note 30)	(57,089)
Total identifiable net assets	683,847
Goodwill (note 13)	429,016
Non-controlling interests	(245,145)
Total	867,718

The goodwill of HK$429,016,000 arising from these acquisitions is attributable to the future profitability of the acquired businesses.

The acquired businesses contributed revenue of HK$1,196,203,000 and net profit of HK$31,885,000 to the Company's shareholders for the period from their respective acquisition dates up to 31 December 2019. If the acquisitions had occurred on 1 January 2019, the contributed revenue and profit attributable to Company's shareholders for the year ended 31 December 2019 would have been HK$1,568,861,000 and HK$78,836,000 respectively.

34 COMMITMENTS

(a) At 31 December 2019, 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:

	2019 HK$'000	2018 HK$'000
Contracted but not provided for	715,865	1,014,433

(b) At 31 December 2019, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2019 HK$'000	2018 HK$'000
Land and buildings:		
Within one year	58,861	557,280
In the second to fifth year, inclusive	–	794,429
Over five years	–	311,542
	58,861	1,663,251

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 2(a) and note 15(b) for further information.

(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 2019, the Group's total bank loans of HK$8,121,610,000 (2018: HK$9,506,466,000) included an aggregate amount of HK$1,019,537,000 (2018: HK$1,150,626,000) which is secured. The Group's total bank overdrafts of HK$233,750,000 (2018: HK$193,076,000) included an aggregate amount of HK$50,076,000 (2018: HK$46,541,000) 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$2,866,665,000 (2018: HK$2,872,808,000) (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:

	2019		2018	
	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	17.58	30,000	47.32	2,380,000
Exercised during the year (note (i))	17.58	(30,000)	–	–
Lapsed during the year	–	–	47.70	(2,350,000)
At 31 December (note (ii))	–	–	17.58	30,000

36 SHARE OPTIONS (CONTINUED)

KPL SHARE OPTIONS SCHEMES (CONTINUED)

(a) 2002 SHARE OPTION SCHEME (CONTINUED)

As at 31 December 2019, all the outstanding share options granted under the 2002 Share Option Scheme were exercised. For the share options exercised during the year, the related weighted average share price at the time of exercise was HK$17.58 (2018: Nil), and the total amount of proceeds received was HK$527,400 (2018: Nil). No share option was granted, granted for adjustment or cancelled during the year (2018: Nil).

Notes:

(i) *Details of share options exercised:*

Exercise price per share (HK$)	Number of share options 2019	2018
17.58	30,000	–

(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 2019	2018
06/02/2011-05/02/2019	17.58	–	30,000

(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)

	2019		2018	
	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	3,639,000	35.45	6,870,000
Exercised during the year (note (i))	–	–	35.45	(3,071,000)
Lapsed during the year	35.45	(260,000)	35.45	(160,000)
At 31 December (note (ii))	35.45	3,379,000	35.45	3,639,000

Since no share option was exercised during the year ended 31 December 2019, there was no weighted average share price (2018: HK$40.26), and no proceeds was received (2018: HK$108,866,950). No share option was granted, granted for adjustment or cancelled during the year (2018: Nil).

Notes:

(i) Details of share options exercised:

Exercise price per share (HK$)	Number of share options 2019	2018
35.45	–	3,071,000

(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 2019	2018
31/10/2012–29/04/2022	35.45	1,483,000	1,613,000
31/10/2013–29/04/2022	35.45	1,896,000	2,026,000
		3,379,000	3,639,000

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:

	2019		2018	
	Weighted average exercise price in HK$ per share	Number	Weighted average exercise price in HK$ per share	Number
At 1 January	HK$10.2	25,588,500	HK$10.2	35,004,500
Exercised during the year (note (i))	HK$10.2	(8,000,000)	HK$10.2	(9,166,000)
Lapsed during the year (note (ii))	HK$10.2	(230,000)	HK$10.2	(250,000)
At 31 December (note (iii))	HK$10.2	17,358,500	HK$10.2	25,588,500

For the share options exercised during the year ended 31 December 2019, the related weighted average share price at the time of exercise was HK$14 (2018: HK$12.18), and the total amount of proceeds received was approximately HK$81,600,000 (2018: HK$93,493,200). No share option was granted, granted for adjustment or cancelled during the year (2018: 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 2019	2018
10.2	8,000,000	9,166,000

(ii) *Details of share options lapsed:*

Exercise price per share (HK$)	Number of share options 2019	2018
10.2	230,000	250,000

(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 2019	2018
19/12/2013 – 01/12/2023	10.2	6,645,000	11,517,000
02/12/2014 – 01/12/2023	10.2	10,713,500	14,071,500
		17,358,500	25,588,500

(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 2,940,000 share options were exercised during the year ended 31 December 2019, the related weighted average share price at the time of exercise was HK$14.12 (2018: HK$13), and the total amount of proceeds received was approximately HK$36,044,400 (2018: HK$122,600). As at 31 December 2019, a total of 1,200,000 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

	2019 HK$'000	2018 HK$'000
Fellow subsidiaries		
Logistics services income	28,786	26,764
Warehouse management fee income	5,324	1,386
Rental expense	(17,440)	(8,595)
Associates of the Group/ Kerry Properties Limited/ Kerry Group Limited		
Logistics services income	8,368	7,237
Rental expense	(11,382)	(35,442)

During the year, the Group entered into the lease contracts with fellow subsidiaries and associates of Kerry Properties Limited which recognised an addition of right-of-use assets of HK$37,879,000 and HK$ 7,523,000 respectively.

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 eleven (2018: eleven) senior executives who report to the Board of Directors.

	2019 HK$'000	2018 HK$'000
Salaries and other short-term benefits	103,779	97,668

(c) On 28 June 2019, the Group has completed the disposal of 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 to a subsidiary of KPL, a controlling shareholder and substantial shareholder of the Group, with a disposal gain of approximately HK$2 billion. The Group, on the same day, has entered into the agreements with the Target Companies on the provision of building management and related services.

38 SUBSEQUENT EVENTS

US APEX SWAP

On 24 February 2020, KLN Investment (US) LLC, an indirectly wholly owned subsidiary of the Company, which holds 51% of the equity interests of a group of 14 US subsidiaries (collectively as "Apex Group"), entered into an agreement with 28 individuals (collectively the "Sellers") who collectively holds 49% of the remaining interest of Apex Group. KLN Investment (US) LLC, as the purchaser, agreed to purchase the 49% of the remaining interest of the Apex Group from the Sellers, at an estimated consideration of US$176 million, in which 30% of the consideration to be paid in cash, while the remaining 70% of the consideration will be satisfied by way of the allotment and issue of shares of the Company to the Sellers at the issue price of HK$12.58 per share. The specific mandate to allot and issue of the shares is subject to the approval by the independent shareholders. Meanwhile, the option agreements and certain other agreements related to or entered into in connection with the acquisition of the interests in KLN Investment (US) LLC entered into in 2016 or parts thereof will be terminated. Upon completion of the acquisition, each of the entities forming the Apex Group will become an indirect wholly-owned subsidiary of the Company.

38 SUBSEQUENT EVENTS (CONTINUED)

SPIN OFF OF KERRY EXPRESS THAILAND

On 28 February 2020, Kerry Express (Thailand) Public Company Limited ("KETH"), an indirect non wholly-owned subsidiary company of the Company, which is principally engaged in the express delivery business in Thailand, submitted the application for issuance and offering of ordinary shares ("Global Offering") to the Securities and Exchange Commission of Thailand ("SEC") and is now in the process of providing additional information. Subject to the approval of the Global Offering by the SEC, the issuance of new KETH shares to be issued will account for approximately 17.24% of the enlarged issued share capital of KETH. The Company's deemed interests, in the issued share capital of KETH will be reduced to approximately to 52.14% and will still remain a subsidiary of the Company. The Company will continue to consolidate the results of KETH into the consolidated financial statements of the Group.

IMPACT OF CORONAVIRUS

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country and globally. The gradual recovery of the global macroeconomic environment (including import and export activities of different countries) may have a temporary indirect impact on the demand of the Group's integrated logistics and international freight forwarding services to certain extent. The Group might also have to experience longer turnover time for recovering its trade and other receivables which may therefore be subject to a higher credit risk. The financial effect of these potential temporary impact cannot be reliably estimated as of the date of these consolidated financial statements. The Group will continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group accordingly.

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES		
Non-current asset		
Subsidiaries	1,815,042	2,386,974
Current assets		
Financial assets at fair value through profit or loss	116,615	103,501
Prepayments	8,689	7,170
Amounts due from subsidiaries	8,913,971	7,118,656
Cash and bank balances	604,520	321,191
	9,643,795	7,550,518
Current liabilities		
Accrued charges	43,978	56,950
Amounts due to subsidiaries	6,589,808	4,695,994
	6,633,786	4,752,944
ASSETS LESS LIABILITIES	4,825,051	5,184,548
EQUITY		
Share capital	858,102	852,632
Share premium	3,236,063	3,108,610
Retained profits	707,886	1,184,753
Share options reserve	23,000	38,553
TOTAL EQUITY	4,825,051	5,184,548

The statement of financial position of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf.

KUOK Khoon Hua
Director

MA Wing Kai William
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 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
At 1 January 2019	852,632	3,108,610	1,184,753	38,553	5,184,548
Profit for the year	–	–	551,103	–	551,103
2018 final dividend paid	–	–	(273,954)	–	(273,954)
2019 interim dividend paid	–	–	(154,326)	–	(154,326)
2019 special dividend paid	–	–	(599,964)	–	(599,964)
Exercise of pre-IPO share option scheme allotment	4,000	87,146	–	(9,546)	81,600
Exercise of post-IPO share option scheme allotment	1,470	40,307	–	(5,733)	36,044
Share option lapsed	–	–	274	(274)	–
At 31 December 2019	858,102	3,236,063	707,886	23,000	4,825,051

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES

At 31 December 2019, the Company held interests in the following principal subsidiaries:

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[7]/ registered capital	Interest held indirectly 2019	Interest held indirectly 2018
[13]	ABX Express (M) Sdn. Bhd.	Malaysia	Express business	MYR5,000,000 MYR20,000,000[8]	100%	100%
[13]	APEX Maritime Co., Inc.	US	Freight forwarding	US$238,203[9]	51%	51%
[13]	APEX Maritime Co. (LAX), Inc.	US	Freight forwarding	US$100,000[9]	51%	51%
[1][13]	ASAV Logistics Services Inc.	Turkey	Investment holding	TRY50,000	70%	–
[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%
	Columbia International Removals Limited	HK	Logistics business	HK$5,000,000	90%	90%
[1][3][13]	CV Global Logistics (Beijing) Limited	PRC	Logistics business	RMB50,000,000	100%	100%
[1][13]	Direct Logistics Co. Limited	Taiwan	Freight forwarding	TWD35,000,000	51%	51%
[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	THB80,000,000	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%
	Kerry Coffee (Hong Kong) Limited	HK	Trading business	HK$100,000	100%	–
[1][4][13]	Kerry Cold Chain Solution Ltd.	PRC	Cold chain solution logistics	RMB50,000,000	51%	–

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital(7)/ registered capital	Interest held indirectly 2019	Interest held indirectly 2018
	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 eCommerce Limited	HK	Logistics business	HK$10,000	42.71%	–
	Kerry Express (Hong Kong) Limited	HK	Courier services and logistics	HK$5,000,000	83.75%	80%
(1)	Kerry Express (Thailand) Limited (Changed to Kerry Express (Thailand) Public Company Limited on 24 February 2020)	Thailand	Express business	THB120,000,000	63%	63%
(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 HK$2,750,000(10)	100%	100%
(1)	Kerry Freight (Korea) Inc.	South Korea	Freight forwarding	KRW500,000,000(9)	100%	100%
(13)	Kerry Freight (Senegal) Sarl	Senegal	Freight forwarding	XOF1,000,000	100%	100%
	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	100%	60%
(5)(6)(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%
	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%
(13)	Kerry Logistics (Cambodia) Pte. Ltd.	Cambodia	Freight forwarding	KHR96,960,000	100%	100%
	Kerry Logistics (Canada) Inc.	Canada	Freight forwarding	CAD301	95%	95%

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[7]/ registered capital	Interest held indirectly 2019	Interest held indirectly 2018
(1)(3)(13)	Kerry Logistics (China) Investment Limited	PRC	Investment holding	USD198,200,000	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%
(13)	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%
(13)	Kerry Logistics (South Africa) (Pty) Ltd (Formerly known as Shipping and Airfreight Services (Pty) Ltd)	South Africa	Freight forwarding	ZAR100,000	100%	100%
(13)	Kerry Logistics (Spain), S.A.U.	Spain	Freight forwarding	EUR120,202	100%	100%
	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%
(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 Bahrain WLL	Bahrain	Freight forwarding	BHD80,000	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%	100%
	Kerry Logistics Engineering Limited	HK	Logistics solution engineering and consultancy services	HK$5,000,000	41%	51%

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[7]/ registered capital	Interest held indirectly 2019	Interest held indirectly 2018
(13)	Kerry Logistics Management (Asia) Pte. Ltd.	Singapore	Management services	SGD230,500,000	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%	100%
(13)	Kerry Logistics Services (Middle East) FZCO (Formerly known as Able Logistics Group FZCO)	UAE	Freight forwarding	AED10,000,000	75%	75%
(5)(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	80%	100%
	Kerry PC3 Limited	HK	Logistics business	HK$1	100%	100%
	Kerry Pharma (Hong Kong) Limited	HK	Pharmaceutical logistics business	HK$500,000	80%	100%
(13)	Kerry Project Logistics (Italia) S.p.A.	Italy	Logistics business	EUR3,000,000	100%	100%
(13)	Kerry Project Logistics (Kazakhstan) LLP	Kazakhstan	Logistics business	KZT88,800,000	100%	100%
(1)(13)	Kerry Project Logistics (Turkmenistan) ES	Turkmenistan	Logistics business	TMT80,000	100%	100%
(13)	Kerry Project Logistics Middle East LLC	UAE	Logistics business	AED500,000	100%	100%
(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%	71.47%
(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)(6)(13)(15)	Kerry TJ Logistics Company Limited	Taiwan	Logistics business	NTD4,670,004,980	49.67%	49.67%
	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 (Sheung Shui) Limited	HK	Warehouse ownership	HK$5,000,000	100%	100%

40 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation and principal place of operation	Principal activities	Issued share capital[7]/ registered capital	Interest held indirectly 2019	Interest held indirectly 2018
	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)	Pacific Logistics Corporation Limited (Formerly known as Lanzhou Pacific Logistics Corporation Limited)	PRC	Rail logistics	RMB55,016,130	50%	50%
	Power Hub Limited	HK	Logistics business	HK$10,240,000	75%	–
(13)	PT. Kerry Logistics Indonesia	Indonesia	Freight forwarding	IDR10,188,008,490	51%	90%
(3)(13)	Qingdao SCO Demo Zone Kerry Logistics Co., Ltd.	PRC	Logistics business	US$15,000,000	100%	–
	Saison Food Service Limited	HK	Trading business	HK$300,000	100%	95.04%
(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	RMB10,000,000	70%	70%
(1)(4)(13)	Shenzhen Kerry Yantian Port Logistics Company Limited	PRC	Logistics business	RMB88,000,000	55%	55%
	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%
	The Meat Lab Limited	HK	Semi-automated raw meat processing and packing	HK$10,000	51%	51%
	Times E-commerce Limited	HK	Logistics business	HK$2,000,000	42.71%	40.80%
	Transpeed Cargo (S) Pte. Ltd.	Singapore	Freight forwarding	SGD100,000	75%	75%
(13)	Tuvia Italia S.p.A.	Italy	Freight forwarding	EUR1,130,050	90%	80%
(13)	UTS Logistics Sdn. Bhd.	Malaysia	Express business	MYR500,000	100%	100%
	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) Companies having a financial accounting period which is not coterminous with the Group

(6) 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.

(7) All being ordinary shares and fully paid up except otherwise stated

(8) Redeemable preference shares

(9) Common shares/common stock

(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

(15) Listed company in Taiwan Stock Exchange Corporation. The market value of the Group's investment in Kerry TJ amounted to HK$2,369,000,000 as at 31 December 2019.

HK Hong Kong Special Administrative Region

BVI British Virgin Islands

UAE United Arab Emirates

DEFINITIONS

"2H"	second half
"3PL"	third party logistics
"AGM"	annual general meeting of the Company on Friday, 29 May 2020
"Apex" or "Target Group"	14 US subsidiaries of KLN Investment
"Asia"	Asia continent, for the purpose of this annual report only, excludes Greater China
"Board"	the board of Directors
"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
"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" or "Kerry Logistics Network"	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
"Director(s)"	director(s) of the Company
"Dividend Payout Ratio"	the percentage of the Group's core net profit paid to Shareholders as dividends

"ED"	Executive Director
"EMEA"	Europe, Middle East and Africa
"EMS"	Environmental Management Systems
"ESG"	environmental, social and governance
"F&B"	food and beverage
"Financial Statements"	the audited consolidated financial statements of the Group for the year ended 31 December 2019
"GDP"	gross domestic product
"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
"GPS"	Global Positioning System
"Greater China"	Mainland China, Hong Kong, Macau and Taiwan
"Group" or "Kerry Logistics"	the Company and its subsidiaries
"GT Programme"	Graduate Trainee Programme
"HACCP"	Hazard Analysis Critical Control Point
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"HK(IFRIC)–Int"	Hong Kong (International Financial Reporting Interpretations Committee) – Interpretation
"HKAS"	Hong Kong Accounting Standards
"HKFRS"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants

"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
"IATA"	International Air Transportation Association
"IFF"	international freight forwarding
"IL"	integrated logistics
"IMS"	integrated management system
"INED"	Independent Non-executive Director
"Kerry Cold Chain Solution"	Kerry Cold Chain Solution Ltd., a limited company incorporated in the PRC, an indirect 51%-owned subsidiary of the Company
"Kerry Europe"	Kerry Logistics Holding (Europe) Limited, an indirect wholly-owned subsidiary of the Company
"Kerry Express Thailand"	Kerry Express (Thailand) Public Company Limited, formerly known as Kerry Express (Thailand) Limited, incorporated in Thailand
"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
"Kerry US"	Kerry Logistics Holding (US) Limited, an indirect wholly-owned subsidiary of the Company
"KGL"	Kerry Group Limited, one of the Controlling Shareholders of the Company
"KHL"	Kerry Holdings Limited, a wholly-owned subsidiary of KGL
"KLN Investment"	KLN Investment (US) LLC, a limited liability company incorporated in Delaware, an indirect wholly-owned subsidiary of the Company
"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
"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
"NVOCC"	non-vessel operating common carrier
"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

"Proposed Acquisition"	the proposed acquisition by KLN Investment of the remaining shares of the Target Group, representing 49% equity interests of each of the entities forming the Target Group
"Proposed Spin-off"	the proposed spin-off and separate listing of the shares of Kerry Express Thailand on The Stock Exchange of Thailand
"Q2", "Q3" or "Q4"	second quarter, third 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
"Science Park Logistics"	Science Park Logistics Co., Ltd., incorporated under the laws of Taiwan with limited liability by shares, a deemed subsidiary of the Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Award Scheme"	share award scheme of the Company
"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"	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 2019

www.kerrylogistics.com

Kerry Logistics Network

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

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