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**Kerry Logistics
Network Limited**
嘉里物流聯網有限公司

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

Stock Code 636

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of the Company is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2017, together with comparative figures for the year ended 31 December 2016.

GROUP'S FINANCIAL HIGHLIGHTS

- Turnover increased by 28% to HK\$30,788 million (2016: HK\$24,036 million)
- Core operating profit increased by 13% to HK\$2,128 million (2016: HK\$1,878 million)
- Core net profit increased by 7% to HK\$1,183 million (2016: HK\$1,104 million)
- Profit attributable to the Shareholders increased by 13% to HK\$2,116 million (2016: HK\$1,877 million)
- IL business recorded a 12% increase in segment profit to HK\$1,846 million (2016: HK\$1,653 million)
- IFF business recorded a 14% increase in segment profit to HK\$511 million (2016: HK\$448 million)
- Dividend Payout Ratio increased to 32% (2016: 29%)
- Proposed final dividend of 14 HK cents per share, to be payable on Wednesday, 20 June 2018

CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December | |
|--|------|------------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 |
| Turnover | 2 | 30,787,654 | 24,035,567 |
| Direct operating expenses | 4 | (26,606,662) | (20,423,980) |
| Gross profit | | 4,180,992 | 3,611,587 |
| Other income and net gains | 3 | 160,011 | 166,907 |
| Administrative expenses | 4 | (2,178,782) | (1,871,749) |
| Operating profit before fair value change of investment properties | | 2,162,221 | 1,906,745 |
| Change in fair value of investment properties | | 901,632 | 770,615 |
| Operating profit | | 3,063,853 | 2,677,360 |
| Finance costs | 5 | (159,825) | (145,209) |
| Share of results of associates and joint ventures | | 64,784 | 101,003 |
| Profit before taxation | | 2,968,812 | 2,633,154 |
| Taxation | 6 | (469,350) | (397,596) |
| Profit for the year | | 2,499,462 | 2,235,558 |
| Profit attributable to: | | | |
| Company's shareholders | | 2,115,897 | 1,877,202 |
| Non-controlling interests | | 383,565 | 358,356 |
| | | 2,499,462 | 2,235,558 |
| Earnings per share | 8 | | |
| – Basic | | HK\$1.25 | HK\$1.11 |
| – Diluted | | HK\$1.25 | HK\$1.11 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Profit for the year | 2,499,462 | 2,235,558 |
| Other comprehensive income/(loss) | | |
| Items that will not be reclassified subsequently to consolidated income statement | | |
| Defined benefit pension plans | | |
| – Actuarial losses | (9,892) | (15,114) |
| – Deferred income tax | 1,682 | 2,569 |
| Items that may be reclassified to consolidated income statement | | |
| Net translation differences on foreign operations | 973,697 | (458,108) |
| Fair value change on available-for-sale investments | (2,000) | (8,101) |
| Other comprehensive income/(loss) for the year (net of tax) | 963,487 | (478,754) |
| Total comprehensive income for the year | 3,462,949 | 1,756,804 |
| Total comprehensive income attributable to: | | |
| Company's shareholders | 2,857,346 | 1,457,161 |
| Non-controlling interests | 605,603 | 299,643 |
| | 3,462,949 | 1,756,804 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December | |
|---|------|-------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Intangible assets | | 3,884,482 | 3,224,599 |
| Investment properties | | 9,892,482 | 8,836,851 |
| Leasehold land and land use rights | | 625,550 | 560,983 |
| Property, plant and equipment | | 9,423,181 | 7,868,952 |
| Associates and joint ventures | | 1,409,486 | 1,185,520 |
| Available-for-sale investments | | 100,811 | 97,988 |
| Investment in convertible bonds | | 564,397 | 474,306 |
| Deferred taxation | | 98,432 | 118,527 |
| | | 25,998,821 | 22,367,726 |
| Current assets | | | |
| Financial assets at fair value through profit or loss | | 109,841 | 112,708 |
| Inventories | | 333,758 | 282,694 |
| Accounts receivable, prepayments and deposits | 9 | 7,568,472 | 5,802,531 |
| Tax recoverable | | 41,236 | 43,079 |
| Amounts due from fellow subsidiaries | | 5,641 | 2,886 |
| Restricted and pledged bank deposits | | 22,926 | 18,929 |
| Cash and bank balances | | 3,569,626 | 3,334,729 |
| | | 11,651,500 | 9,597,556 |
| Current liabilities | | | |
| Accounts payable, deposits received and accrued charges | 10 | 5,565,831 | 4,366,493 |
| Amounts due to fellow subsidiaries | | 451 | 641 |
| Amounts due to related companies | | 34,375 | 34,768 |
| Taxation | | 246,348 | 164,564 |
| Short-term bank loans and current portion of long-term bank loans | 11 | 3,955,722 | 1,427,399 |
| Bank overdrafts | | 51,006 | 21,595 |
| | | 9,853,733 | 6,015,460 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | | As at 31 December | |
|--|------|--------------------------|-----------------|
| | Note | 2017 | 2016 |
| | | HK\$'000 | HK\$'000 |
| Non-current liabilities | | | |
| Loans from non-controlling interests | | 166,826 | 194,715 |
| Long-term bank loans | 11 | 4,198,758 | 5,483,632 |
| Deferred taxation | | 662,629 | 635,192 |
| Retirement benefit obligations | | 137,054 | 142,853 |
| Other non-current liabilities | | 1,364,443 | 1,403,253 |
| | | 6,529,710 | 7,859,645 |
| ASSETS LESS LIABILITIES | | 21,266,878 | 18,090,177 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's shareholders | | | |
| Share capital | | 848,044 | 847,711 |
| Share premium and other reserves | | 2,793,363 | 2,012,832 |
| Retained profits | | 15,400,585 | 13,680,087 |
| | | 19,041,992 | 16,540,630 |
| Put options written on non-controlling interests | | (1,218,331) | (1,240,727) |
| | | 17,823,661 | 15,299,903 |
| Non-controlling interests | | 3,443,217 | 2,790,274 |
| TOTAL EQUITY | | 21,266,878 | 18,090,177 |

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRS issued by HKICPA. In addition, these financial statements also comply with the applicable disclosure provisions of the Listing Rules.

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.

(I) ADOPTION OF AMENDMENTS TO EXISTING STANDARDS

The following amendments to existing standards have been published that are effective for the Group's accounting period beginning on 1 January 2017:

- Amendments to HKAS 7, 'Disclosure initiative'
- Amendments to HKAS 12, 'Recognition of deferred tax assets for unrealised losses'
- Amendments to HKFRS 12, 'Disclosure of interest in other entities'

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

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

The following new standards, amendments and improvements to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018, but the Group has not early adopted them:

| | Applicable for accounting periods beginning on/after |
|--|---|
| Amendments to HKAS 40, 'Transfer of investment property' | 1 January 2018 |
| Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions' | 1 January 2018 |
| Amendments to HKFRS 4, 'Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts' | 1 January 2018 |
| Amendments to HKFRS 15, 'Classifications to HKFRS 15' | 1 January 2018 |
| Annual improvements project, 'Annual improvements 2014-2016 cycle' | 1 January 2018 |
| HKFRS 9, 'Financial instruments' | 1 January 2018 |
| HKFRS 15, 'Revenue from contracts with customers' | 1 January 2018 |
| HK (IFRIC) – Int 22, 'Foreign currency transactions and advance consideration' | 1 January 2018 |
| Annual improvements project, 'Annual improvements 2015-2017 cycle' | 1 January 2019 |
| HKFRS 16, 'Leases' | 1 January 2019 |
| HK (IFRIC) – Int 23, 'Uncertainty over income tax treatments' | 1 January 2019 |
| Amendments to HKAS 28 (2011) and HKFRS 10, 'Sales or contribution of assets between an investor and its associate or joint venture' | To be determined |

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

HKFRS 9, "Financial instruments"

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

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at fair value through OCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the fair value through OCI reserve to retained earnings.

The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost and contract assets under HKFRS 15 "Revenue from Contracts with Customers". Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for accounts receivable.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Group will apply the new rules from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15, "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from contracts with customers" replaces the previous revenue standards, including HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations on revenue recognition, and is effective for periods beginning on or after 1 January 2018. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

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

Management has carried out a preliminary assessment on the effects of applying the new standard on the Group's consolidated financial statements and have concluded that no significant impact is to be expected, and have adopted the standard for the period beginning on 1 January 2018 using the modified retrospective approach, which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16, "Leases"

HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for in the statements of financial position for lessees. The Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, and provides that almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The Group conducted a preliminary assessment and estimated that the adoption of HKFRS 16 would result in recognition of lease assets and lease liabilities primarily arising from leases of premises and properties in relation to the Group's various businesses. The Group will continue to assess the impact in more detail.

2. PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

An analysis of the Group's financial results by operating segment and geographical area for the year ended 31 December 2017, together with comparative figures for the year ended 31 December 2016, is as follows:

| | For the year ended 31 December | | | | | | | | | |
|---|--------------------------------|------------|---------------------|----------------|--------------------|----------------|----------------|-------------|----------------|------------|
| | Integrated logistics | | | | International | | Elimination | | Consolidation | |
| | Logistics operations | | Hong Kong warehouse | | freight forwarding | | | | | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| | (reclassified) | | | (reclassified) | | (reclassified) | (reclassified) | | (reclassified) | |
| Turnover | | | | | | | | | | |
| Turnover | 13,124,054 | 10,819,433 | 488,159 | 538,167 | 17,175,441 | 12,677,967 | - | - | 30,787,654 | 24,035,567 |
| Inter-segment turnover | 294,988 | 202,485 | 425,170 | 361,960 | 2,206,120 | 1,053,493 | (2,926,278) | (1,617,938) | - | - |
| | 13,419,042 | 11,021,918 | 913,329 | 900,127 | 19,381,561 | 13,731,460 | (2,926,278) | (1,617,938) | 30,787,654 | 24,035,567 |
| Turnover by geographical area: | | | | | | | | | | |
| Hong Kong | 3,136,667 | 2,446,009 | 913,329 | 900,127 | 946,844 | 751,252 | (916,031) | (418,849) | 4,080,809 | 3,678,539 |
| Mainland China | 4,164,049 | 3,919,314 | - | - | 5,967,354 | 4,826,242 | (1,048,907) | (700,313) | 9,082,496 | 8,045,243 |
| Taiwan | 2,493,385 | 2,265,812 | - | - | 221,287 | 156,876 | (21,070) | (11,039) | 2,693,602 | 2,411,649 |
| Asia | 3,470,621 | 2,254,307 | - | - | 3,553,369 | 2,439,379 | (551,597) | (268,193) | 6,472,393 | 4,425,493 |
| Americas | - | - | - | - | 5,477,685 | 3,058,861 | (249,122) | (121,820) | 5,228,563 | 2,937,041 |
| Europe | - | - | - | - | 2,865,795 | 2,207,707 | (116,748) | (71,015) | 2,749,047 | 2,136,692 |
| Others | 154,320 | 136,476 | - | - | 349,227 | 291,143 | (22,803) | (26,709) | 480,744 | 400,910 |
| | 13,419,042 | 11,021,918 | 913,329 | 900,127 | 19,381,561 | 13,731,460 | (2,926,278) | (1,617,938) | 30,787,654 | 24,035,567 |
| Segment profit by geographical area: | | | | | | | | | | |
| Hong Kong | 230,152 | 195,381 | 545,420 | 521,784 | 26,762 | 23,704 | - | - | 802,334 | 740,869 |
| Mainland China | 245,085 | 265,425 | - | - | 187,107 | 201,740 | - | - | 432,192 | 467,165 |
| Taiwan | 388,140 | 386,316 | - | - | 4,779 | 7,899 | - | - | 392,919 | 394,215 |
| Asia | 425,352 | 272,584 | - | - | 75,498 | 68,601 | - | - | 500,850 | 341,185 |
| Americas | - | - | - | - | 174,099 | 109,497 | - | - | 174,099 | 109,497 |
| Europe | - | - | - | - | 23,540 | 23,576 | - | - | 23,540 | 23,576 |
| Others | 11,806 | 11,637 | - | - | 19,454 | 13,161 | - | - | 31,260 | 24,798 |
| | 1,300,535 | 1,131,343 | 545,420 | 521,784 | 511,239 | 448,178 | - | - | 2,357,194 | 2,101,305 |
| Less: Unallocated administrative expenses | | | | | | | | | (229,216) | (223,401) |
| Core operating profit | | | | | | | | | 2,127,978 | 1,877,904 |
| Finance income | | | | | | | | | 19,243 | 28,841 |
| Finance costs | | | | | | | | | (159,825) | (145,209) |
| Share of results of associates and joint ventures | | | | | | | | | 64,784 | 101,003 |
| Profit before taxation* | | | | | | | | | 2,052,180 | 1,862,539 |
| Taxation* | | | | | | | | | (485,017) | (400,982) |
| Profit for the year* | | | | | | | | | 1,567,163 | 1,461,557 |
| Non-controlling interests* | | | | | | | | | (384,100) | (357,533) |
| Core net profit | | | | | | | | | 1,183,063 | 1,104,024 |
| Change in fair value of investment properties | | | | | | | | | 901,632 | 770,615 |
| Deferred tax on change in fair value of investment properties | | | | | | | | | 15,667 | 3,386 |
| Less: Non-controlling interests' share of after-tax change in fair value of investment properties | | | | | | | | | 535 | (823) |
| Fair value change of financial instruments | | | | | | | | | 65,000 | - |
| Goodwill impairment | | | | | | | | | (50,000) | - |
| Profit attributable to the Company's shareholders | | | | | | | | | 2,115,897 | 1,877,202 |
| Depreciation and amortisation | 425,252 | 388,594 | 53,365 | 47,312 | 161,272 | 119,978 | | | 639,889 | 555,884 |

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

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

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

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

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

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

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

Prior year corresponding segment information that is presented for comparative purposes has been reclassified to conform to the reclassification of operations in Asia and Americas adopted in the current year.

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

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

| | Segment non-current assets[#] | |
|----------------|---|---|
| | 2017 HK\$'000 | 2016 HK\$'000 (reclassified) |
| Hong Kong | 9,883,612 | 8,729,968 |
| Mainland China | 4,730,844 | 4,201,069 |
| Taiwan | 3,286,008 | 2,786,552 |
| Asia | 5,610,408 | 4,383,301 |
| Americas | 986,335 | 1,001,581 |
| Europe | 609,388 | 464,393 |
| Others | 128,586 | 110,041 |
| | 25,235,181 | 21,676,905 |

[#] Other than available-for-sale investments, investment in convertible bonds and deferred taxation.

3. OTHER INCOME AND NET GAINS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Interest income from banks | 17,454 | 27,367 |
| Interest income from associates | 1,789 | 1,474 |
| Interest income from convertible bonds | 27,219 | 20,866 |
| Dividend income from available-for-sale investments | 6,860 | 8,626 |
| Gain on disposal of property, plant and equipment | 60,015 | 37,729 |
| Gain on disposal of an investment property | 35,304 | – |
| Loss on disposal of an associate | – | (11,608) |
| Gain on disposal of subsidiaries | – | 75,487 |
| Fair value change of financial assets at fair value through profit or loss | 61,370 | 6,966 |
| Goodwill impairment | (50,000) | – |
| | 160,011 | 166,907 |

4. EXPENSES BY NATURE

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Auditors' remuneration | 21,887 | 21,669 |
| Business tax and other taxes | 15,265 | 8,725 |
| Cost of goods sold | 1,398,657 | 1,446,515 |
| Freight and transportation costs | 21,088,950 | 15,400,645 |
| Depreciation of property, plant and equipment | 541,294 | 490,276 |
| Amortisation of leasehold land and land use rights | 8,722 | 8,188 |
| Amortisation of intangible assets | 89,873 | 57,420 |
| Provision for impairment of receivables | 25,275 | 31,957 |
| Reversal of provision for impairment of receivables | (4,040) | (23,259) |
| Operating leases charges on land and buildings | 659,589 | 558,608 |
| Employee benefit expenses | 4,274,793 | 3,640,782 |

5. FINANCE COSTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Interest expenses on bank loans and overdrafts | 159,825 | 145,209 |

6. TAXATION

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------|------------------|------------------|
| Hong Kong profits tax | | |
| – Current | 96,328 | 91,449 |
| – Overprovision in prior years | (4,356) | (947) |
| – Deferred | 14,844 | 11,171 |
| | 106,816 | 101,673 |
| PRC taxation | | |
| – Current | 114,462 | 92,946 |
| – Overprovision in prior years | (211) | (2,910) |
| – Deferred | (3,560) | 22,475 |
| | 110,691 | 112,511 |
| Overseas taxation | | |
| – Current | 258,719 | 175,920 |
| – Underprovision in prior years | 6,479 | 5,102 |
| – Deferred | (13,355) | 2,390 |
| | 251,843 | 183,412 |
| | 469,350 | 397,596 |

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) for the year ended 31 December 2017 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% (2016: 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.

The Group's share of associates' and joint ventures' taxation for the year ended 31 December 2017 are HK\$15,149,000 (2016: HK\$19,050,000) and included in the share of results of associates and joint ventures in the consolidated income statement.

7. DIVIDENDS

A final dividend in respect of the year ended 31 December 2017 of 14 HK cents per share, amounting to a total dividend of HK\$237,452,000, is to be proposed at the annual general meeting on 29 May 2018. These financial statements do not reflect this dividend payable.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Interim dividend paid of 8 HK cents (2016: 7 HK cents) per ordinary share | 135,688 | 118,672 |
| Proposed final dividend of 14 HK cents (2016: 12 HK cents) per ordinary share | 237,452 | 203,451 |
| | <u>373,140</u> | <u>322,123</u> |

8. 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.

| | 2017 | 2016 |
|--|---------------|---------------|
| Adjusted weighted average number of ordinary shares in issue | 1,695,782,834 | 1,694,966,122 |
| Profit attributable to the Company's shareholders (HK\$'000) | 2,115,897 | 1,877,202 |
| Basic earnings per share (HK\$) | 1.25 | 1.11 |

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.

| | 2017 | 2016 |
|---|---------------|---------------|
| Adjusted weighted average number of ordinary shares in issue | 1,695,782,834 | 1,694,966,122 |
| Adjustment for share options | 1,970,800 | 1,664,895 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | 1,697,753,634 | 1,696,631,017 |
| Profit attributable to the Company's shareholders (HK\$'000) | 2,115,897 | 1,877,202 |
| Diluted earnings per share (HK\$) | 1.25 | 1.11 |

9. ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Below 1 month | 3,454,716 | 2,516,351 |
| Between 1 month and 3 months | 2,041,199 | 1,598,844 |
| Over 3 months | 410,740 | 426,904 |
| Total trade receivables, net | 5,906,655 | 4,542,099 |
| Prepayments, deposits and other receivables | 1,661,817 | 1,260,432 |
| | 7,568,472 | 5,802,531 |

10. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Below 1 month | 1,560,679 | 1,034,815 |
| Between 1 month and 3 months | 701,091 | 653,173 |
| Over 3 months | 596,172 | 551,040 |
| Total trade payables | 2,857,942 | 2,239,028 |
| Deposits received, accrued charges and other payables | 2,707,889 | 2,127,465 |
| | 5,565,831 | 4,366,493 |

11. BANK LOANS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------|------------------|------------------|
| Non-current | | |
| – unsecured | 3,280,408 | 4,717,700 |
| – secured | 918,350 | 765,932 |
| | 4,198,758 | 5,483,632 |
| Current | | |
| – unsecured | 3,880,199 | 1,263,411 |
| – secured | 75,523 | 163,988 |
| | 3,955,722 | 1,427,399 |
| Total bank loans | 8,154,480 | 6,911,031 |

As at 31 December 2017, the Group's bank loans were repayable as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------|------------------|------------------|
| Within 1 year | 3,955,722 | 1,427,399 |
| Between 1 and 2 years | 2,020,074 | 1,975,307 |
| Between 3 and 5 years | 2,177,418 | 3,406,604 |
| Repayable within 5 years | 8,153,214 | 6,809,310 |
| Over 5 years | 1,266 | 101,721 |
| | 8,154,480 | 6,911,031 |

12. COMMITMENTS

At 31 December 2017, 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:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------|------------------|------------------|
| Contracted but not provided for | 1,527,636 | 833,527 |

13. PLEDGE OF ASSETS

At 31 December 2017, the Group's total bank loans of HK\$8,154,480,000 (2016: HK\$6,911,031,000) included an aggregate amount of HK\$993,873,000 (2016: HK\$929,920,000) which is secured. The Group's total bank overdrafts of HK\$51,006,000 (2016: HK\$21,595,000) included an aggregate amount of HK\$48,395,000 (2016: HK\$14,024,000) 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\$2,591,024,000 (2016: HK\$2,602,354,000);
- (ii) assignments of insurance proceeds of certain properties; and
- (iii) certain balances of restricted and pledged deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group recorded an increase in turnover of 28% to HK\$30,788 million in 2017 (2016: HK\$24,036 million). Core operating profit went up 13% to HK\$2,128 million (2016: HK\$1,878 million). Core net profit also rose 7% year-on-year to HK\$1,183 million (2016: HK\$1,104 million). Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and financial instruments, and goodwill impairment, also increased by 13% to HK\$2,116 million (2016: HK\$1,877 million).

| | 2017 HK\$ million | 2016 HK\$ million | |
|---|----------------------|----------------------|------|
| Segment profit | | | |
| IL | | | |
| – Logistics operations | 1,301 | 1,131 | +15% |
| – Hong Kong warehouse | 545 | 522 | +4% |
| | 1,846 | 1,653 | +12% |
| IFF | 511 | 448 | +14% |
| | 2,357 | 2,101 | |
| Unallocated administrative expenses | (229) | (223) | |
| Core operating profit | 2,128 | 1,878 | +13% |
| | | | |
| Core net profit | 1,183 | 1,104 | +7% |
| Change in fair value of investment properties, net of deferred tax | 918 | 773 | |
| Change in fair value of financial instruments | 65 | – | |
| Goodwill impairment | (50) | – | |
| Profit attributable to the Shareholders | 2,116 | 1,877 | +13% |

BUSINESS REVIEW

MARKET OVERVIEW

The global economic growth has been on an upswing, riding on the recovery in investment, manufacturing, and trade activities. Strengthened consumer confidence in the US and Europe led to healthy global demand and increased imports. The overall performance of Asia remained robust, driven by pronounced external demand and rising domestic consumption. Factory activity was particularly strong in Mainland China, Taiwan, and India, with a surge in new orders and output.

Buoyed by the continued strength in global e-commerce, the sound performance of APEX in the Americas, and the accelerating growth of its express business in Thailand, Kerry Logistics performed better in 2017 2H when compared to 1H. The Group continued to record a positive annual growth for the eighth consecutive year, and achieved a 28% growth in turnover and a 13% increase in core operating profit in 2017.

IL SUSTAINED STEADY GROWTH

Generating 78% of the Group's total segment profit, the IL division achieved a 12% growth in segment profit in 2017. The increase was supported by synchronised global business growth and the lucrative performance of the Group's business in Thailand.

HONG KONG MAINTAINED GROWTH

In Hong Kong, new business and customer wins in various verticals brought continued growth to the logistics business, which posted an 18% growth. The warehousing business reported stable growth, supported by healthy rental income streams. As a result, the Group's Hong Kong business contributed 42% of segment profit for the IL division.

MAINLAND CHINA PROFIT RECEDED

The Group's business in Mainland China, which accounted for 13% of the IL segment profit, dropped due to rising competition and cost. Business restructuring has been taking place to streamline operations and lower costs.

TAIWAN RESUMED PROGRESS

As the impact of the new labour law lessened in 2017 2H, coupled by the Group's effort to improve operational efficiency through optimised route planning and cost management, Kerry Logistics regained positive growth in Taiwan in 2H and generated 21% of segment profit of the IL division. The change in pharmaceutical regulations in late 2017 also offered new development opportunities for the pharmaceutical logistics business.

ASIA REMAINED A BRIGHT SPOT

The IL division in Asia remains a bright spot, in particular the express business in Thailand. It contributed 23% of the IL segment profit. Building on its dominant position in the express sector, the Group continued to experience rapid growth driven by the e-commerce boom and margin expansion on the back of better economies of scale from rapid volume growth. Together with the improved performance of Kerry Siam Seaport driven by a pickup in volume growth, the IL segment profit of Asia rose 56% in 2017.

IFF POWERED GROWTH

Consistent with the Group's expectation, the IFF division delivered solid performance in 2017, with a 41% upsurge in turnover and a 14% rise in segment profit. The results were mainly fuelled by significant contributions from APEX in the US and overall volume growth. The IFF division generated 22% of the total segment profit and has become the growth driver of the Group.

MARGIN CONTRACTION CONTINUED

Despite a stable increase in cargo volume, the rising freight rates in 2017 due to carrier consolidation, alliance shuffle and capacity reduction compressed the profit margin of the IFF division. The situation is expected to stabilise in 2018 as market conditions begin to improve and contract renewals take place.

EXTENDED COVERAGE TO CENTRAL ASIA

The Group's IFF coverage was extended to CIS countries and Central Asia with the joining of Globalink Logistics in 2017. Capitalising on the development opportunities under the Belt and Road initiative, Kerry Logistics is poised to benefit from the increasing trade flow among Mainland China, Central Asia, and other parts of the world. The addition of another new member, Lanzhou Pacific Logistics Corporation Limited, also allowed Kerry Logistics to provide new options to its customers.

EXPANDING ASSET PORTFOLIO

To date, the Group is managing a logistics facility portfolio of 52 million square feet, of which 26 million square feet are self-owned.

Three logistics facilities in Shanghai and Wuxi, Mainland China and Phnom Penh, Cambodia were completed in 2017 1H, supplementing a total area of 1.6 million square feet of logistics facilities to the Group's portfolio.

Four other logistics facilities in Changsha and Wuhan, Mainland China; Guanyin, Taiwan; and Bangna, Thailand, are under construction.

Phase four expansion of Kerry Siam Seaport in Thailand is scheduled for completion in 2018 Q4 with construction of the berth completed in March 2018.

Phase one of the inland port in Mandalay, Myanmar is expected to complete in 2018 Q2 and the projected completion of the inland port in Yangon is in 2018 Q3.

UNLOCKING ASSET POTENTIAL

In Australia, the Group disposed of the rail terminal business in Adelaide in January 2018. In Hong Kong, the disposal of its entire 15% interest in Asia Airfreight Terminal Company Limited to Holistic Capital Investment Limited, a subsidiary of Hong Kong Airlines Limited, is expected to complete shortly. Disposal of another non-core asset is under discussion. The Group will continue to review different options to unlock the underlying value of its assets.

OUTLOOK

The Group expects the growth of the IL division in Hong Kong, Taiwan, and Thailand to remain positive. The IFF business will also continue to grow with our ever-expanding network and coverage.

DEEPENING IN BELT AND ROAD

Capturing opportunities arising from the Belt and Road initiative remains a key focus of the Group's global development strategy. The acquisitions in Mainland China and CIS countries completed in 2017 propel the Group's entry into new markets along the Belt and Road trade routes. With the strongest road and rail freight network in Asia, the Group has been expanding its business across Central Asia and CIS countries, and gradually synergising benefits within its global network. Kerry Logistics is well-positioned to further grow its business and volume through increased trade activities across Eurasia.

CAPITALISING ON E-COMMERCE BOOM

Kerry Logistics has set its sights on the strong demand momentum driven by cross-border e-commerce, particularly between Greater China and ASEAN to boost growth. In light of the outstanding performance of the express business in Thailand, the Group plans to extend the success to other ASEAN markets such as Vietnam, Malaysia and Singapore. With its strong regional network and express capabilities, Kerry Logistics will continue to capitalise on the e-commerce boom and reap benefits of the accelerating growth in cross-border logistics activities.

KEEPING MOMENTUM IN IFF

Riding on the extended coverage and strengthened capabilities in key markets and major gateways, the Group offers customers in both origin and destination countries complete end-to-end solutions on a global scale. Kerry Logistics was ranked No. 7, in terms of ocean freight volumes, on the Top 25 Global Freight Forwarders List published by Armstrong & Associates, Inc. in June 2017. As it continues to bring in catalysts to drive the scale, volume and efficiency of its global IFF network, the Group is optimistic to deliver sustainable results.

FINANCIAL REVIEW

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

Most of the Group's assets and liabilities are denominated in different functional currencies of the overseas subsidiaries' respective countries. The Group generally does not enter into foreign exchange hedges in respect of its long-term equity investments in overseas subsidiaries and associates. For the foreign currency exposure arising from business activities, certain subsidiaries used forward contracts to hedge their foreign exchange exposure from trading transactions during the year, the amount of which was insignificant to the Group. The Group will continue to closely monitor its foreign exchange position and if necessary, hedge its foreign exchange exposure by entering into appropriate hedging instruments. As at 31 December 2017, total foreign currency borrowings amounted to the equivalent of HK\$4,031 million (including HK\$2,553 million denominated in New Taiwan Dollar and HK\$654 million denominated in Thai Baht), which represented approximately 49% of the Group's total bank loans of HK\$8,154 million.

Out of the Group's total bank loans as at 31 December 2017, HK\$3,956 million (representing approximately 48%) was repayable within one year, HK\$2,020 million (representing approximately 25%) in the second year, HK\$2,177 million (representing approximately 27%) in the third to fifth years and HK\$1 million (representing less than 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 88% of total bank loans. In relation to the secured bank loans of HK\$994 million as at 31 December 2017, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,591 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 2017, the gearing ratio for the Group was 43.1% (31 December 2016: 41.9%). 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 2017, the Group had total undrawn bank loan and overdraft facilities of HK\$6,284 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 2017, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 31 December 2017, the Group had approximately 28,400 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CG CODE

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 2017, the Company has complied with the code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2017.

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 2017.

SHARE OPTIONS

The Company has adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme on 25 November 2013. The aforesaid schemes are designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 31 December 2017, a total of 35,004,500 and 4,150,000 options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme were outstanding respectively.

AUDIT AND COMPLIANCE COMMITTEE

The Company has established ACC with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 as well as paragraph D.3 of the CG Code. ACC consists of three Independent Non-executive Directors, being Ms WONG Yu Pok Marina, Mr WAN Kam To and Mr ZHANG Yi Kevin and one Non-executive Director, being Mr CHIN Siu Wa Alfred. The chairman of ACC 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. Mr ZHANG Yi Kevin has been appointed as a member of ACC on 3 July 2017.

ACC has considered and reviewed the annual results and the accounting principles and practices adopted by the Group and discussed matters in relation to internal control and financial reporting with the management and the independent auditor. ACC considers that the annual financial results for the year ended 31 December 2017 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2017 is scheduled to be held at Kowloon Room, Mezzanine Floor, Kowloon Shangri-La, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Tuesday, 29 May 2018 at 2:30 p.m. A notice convening the annual general meeting will be issued and disseminated to the Shareholders in due course.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed from Thursday, 24 May 2018 to Tuesday, 29 May 2018 in order to determine the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting to be held on Tuesday, 29 May 2018. All share transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Wednesday, 23 May 2018.

The Registers of Members will also be closed on Monday, 4 June 2018 in order to determine the entitlement of the Shareholders to the final dividend. All share transfers accompanied by the relevant share certificates and transfer forms must be lodged with Tricor Investor Services Limited at the above address before 4:30 p.m. on Friday, 1 June 2018. The final dividend is payable on or around Wednesday, 20 June 2018 to the Shareholders whose names appear on the Registers of Members on Friday, 1 June 2018, subject to the consideration and approval of the Shareholders at the forthcoming annual general meeting of the Company.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kerrylogistics.com).

The annual report for the year containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

DEFINITIONS

| | |
|-----------------|---|
| "1H" or "2H" | first half or second half |
| "ACC" | the audit and compliance committee of the Company |
| "APEX" | a group of 51%-owned US subsidiaries of KLN Investment (US) LLC, an indirect wholly-owned subsidiary of the Company |
| "ASEAN" | the Association of Southeast Asia Nations |
| "Asia" | Asia continent, for the purpose of this announcement only, excludes Greater China |
| "Belt and Road" | a development strategy and framework primarily between Mainland China and the rest of Eurasia |
| "Board" | the board of Directors |

| | |
|------------------------------|---|
| “CG Code” | the Corporate Governance Code contained in Appendix 14 to the Listing Rules |
| “CIS” | the Commonwealth of Independent States |
| “Company” | Kerry Logistics Network Limited, incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange |
| “Directors” | directors of the Company |
| “Dividend Payout Ratio” | the percentage of the Group’s core net profit paid to Shareholders as dividends |
| “Globalink Logistics” | Globalink Logistics DWC-LLC, a limited liability company incorporated in Dubai World Central, United Arab Emirates, an indirect 51%-owned subsidiary of the Company |
| “Greater China” | Mainland China, Hong Kong, Macau and Taiwan |
| “Group” or “Kerry Logistics” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKAS” | Hong Kong Accounting Standards |
| “HKFRS” | Hong Kong Financial Reporting Standards |
| “HKICPA” | Hong Kong Institute of Certified Public Accountants |
| “HK (IFRIC) – Int” | Hong Kong (International Financial Reporting Interpretations Committee) – Interpretation |
| “Hong Kong” | Hong Kong Special Administrative Region of Mainland China |
| “IFF” | international freight forwarding |
| “IL” | integrated logistics |
| “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 announcement only, excludes Hong Kong, Macau and Taiwan |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |

| | |
|--------------------------------|---|
| “Post-IPO Share Option Scheme” | post-IPO share option scheme of the Company |
| “Pre-IPO Share Option Scheme” | pre-IPO share option scheme of the Company |
| “Q2”, “Q3” or “Q4” | second quarter, third quarter or fourth quarter |
| “Registers of Members” | registers of members of the Company |
| “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 |
| “Shareholders” | the holders of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “US” | the United States of America, its territories and possessions, any State of the United States, and the District of Columbia |

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 27 March 2018

As at the date of this announcement, the Directors of the Company are:

Executive Directors:

Mr YEO George Yong-boon, Mr MA Wing Kai William, Mr ERNI Edwardo and Mr KUOK Khoon Hua

Non-executive Director:

Mr CHIN Siu Wa Alfred

Independent Non-executive Directors:

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