SILK LOGISTICS HOLDINGS

Half Year Report for 26 weeks ended 26 December 2021

Contents

Non-IFRS financial information

The 2022 Half Year Report contains certain non-IFRS financial measures of underlying earnings before interest, tax, depreciation and amortisation (EBITDA), underlying earnings before interest and tax (EBIT) and underlying net profit after tax (NPAT). Underlying performance measures exclude the impact of significant items, which are profit or loss items associated with mergers and acquisitions activity, capital restructures or certain one-off events included in reporting periods that are not reflective of underlying business activities. Non-IFRS financial measures are financial measures other than those defined or specified under all relevant accounting standards and may not be directly comparable with other companies' measures but are common practice in the industry in which the Group operates. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures. The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by the Australian Security and Investments Commission to promote full and clear disclosure for investors and other users of financial information and minimise the possibility of being misled by such information.

These measures are used by management and the directors as the primary measures of assessing the financial performance of the Group. The directors also believe that these non-IFRS measures assist in providing additional meaningful information on the underlying drivers of the business, performance and trends, as well as position of the Group. Non-IFRS measures are not subject to audit or review.

Delivering results

Silk Logistics Holdings Limited ("Silk" or the "Company") is pleased to share with you its first Half Year Report as an ASX listed company, for 1H FY22 (for the 26-week period ended 26 December 2021). Silk's Half Year Report covers Silk Contract Logistics Pty Ltd (ABN 56 006 444 355), Rocke Brothers Pty Ltd (ABN 60 100 734 469) and other controlled entities.

About Silk Logistics Holdings Limited

Silk is a leading Australian owned logistics business providing an integrated 'port to door' service to some of the world's best known brands. Since the management buyout ("MBO") in 2014, the focus at Silk has been to create a business that is agile, responsive to customers and capable of adapting to changing market dynamics. Silk has delivered impressive 1H FY22 results in an environment in which domestic and global supply chains have been challenged in unprecedented ways.

1H FY22 highlights

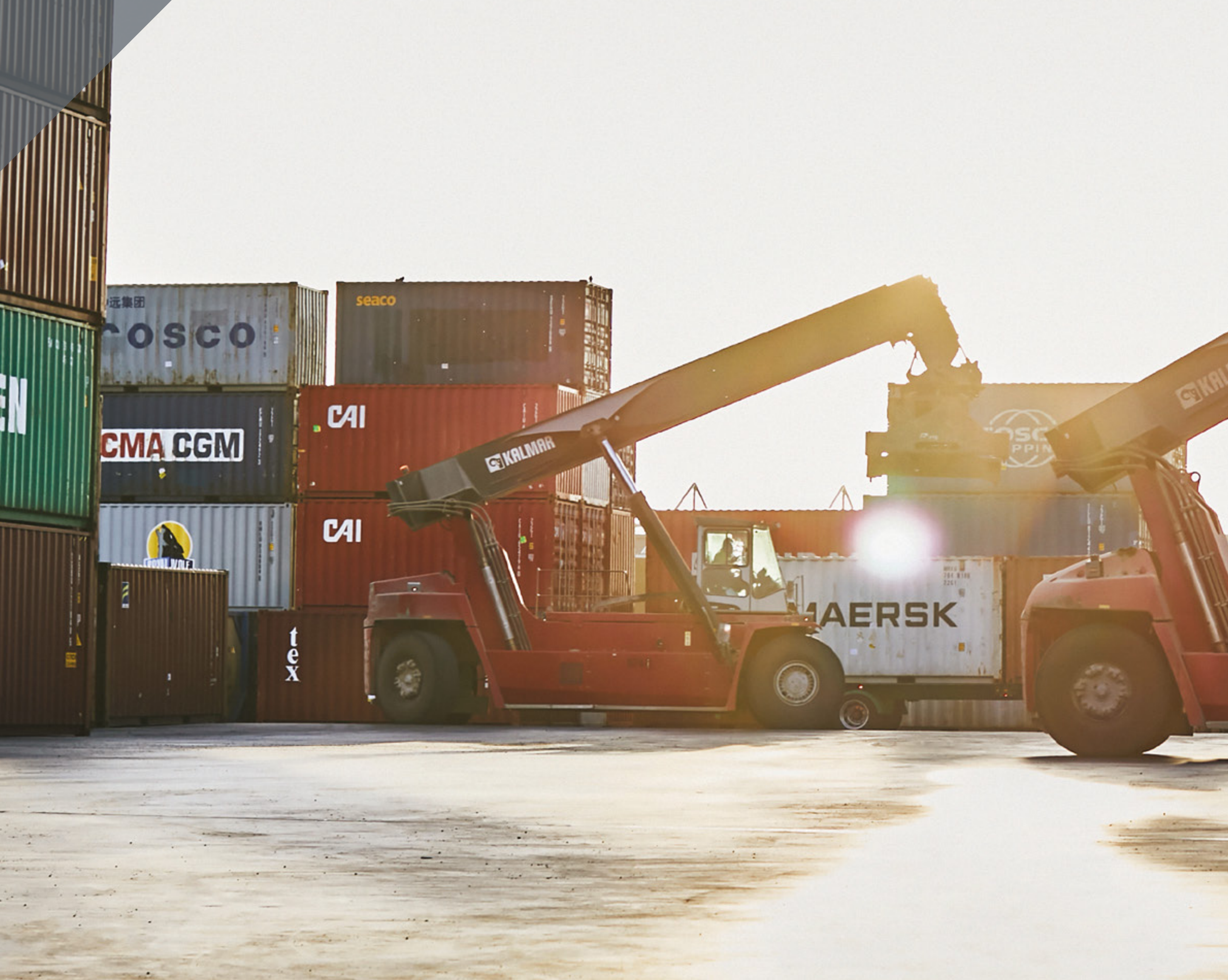
Silk continues to deliver record revenue and earnings results in 1H FY22; adapting to adverse market conditions and supply chain issues, and remaining operational throughout the COVID-19 pandemic.

▲ **18.5%**
Growth in Revenue (pcp for Group)

▲ **59.0%**
Return on capital employed (ROCE)

3.2LTIFR
▼ Decreased from 4.2 as at June 2021 (adjusted)

▲ **10.5%**
pcp billed containers



▲ $12.1m
Underlying free cash flow after capex

▲ 44.5%
Growth in EBIT*

81.6%
EBITDA* to cash

▲ 52.4%
pcp billed consignments

▲ 81.6%
Average leased warehouse occupancy for 1H FY22

* Underlying EBIT(DA) represents EBIT(DA) pre-AASB16 *Leases* and before significant items.

Directors' report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'the Group') consisting of Silk Logistics Holdings Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the 26-week period (the period) ended 26 December 2021.

Directors

The following persons were directors of Silk Logistics Holdings Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Mr Terry Sinclair
Mr Brendan Boyd
Mr John Sood
Mr Stephen Moulton
Ms Louise Thurgood (appointed as a Non-Executive Director, effective 15 November 2021)

Principal activities

The consolidated entity's principal activities during the period consisted of the provision of Port Logistics and Contract Logistics services. Port Logistics operations consist of wharf cartage services; whilst Contract Logistics consists of Warehousing and Distribution services.

The consolidated entity had operations in Victoria, New South Wales, Queensland, Western Australia and South Australia and offered these principal activities across each region.

There have been no changes to the principal activities in the current period.

Review of operations

The profit for the consolidated entity after providing for income tax (net profit after tax or 'NPAT') amounted to $3,481,000 (27 December 2020: $4,259,000). NPAT included expenses associated with the Company's initial public offering ('IPO') (commenced trading on the Australian Securities Exchange ('ASX') on 9 July 2021) of $5.4 million (pre-tax), fair value gain on IPO-related financial instrument (contingent incentive) of $0.5 million (pre-tax), and costs associated with business acquisitions of $0.3 million (pre-tax). The after tax total of IPO and acquisition related expenses in the period was $4.0 million.

The Group has grown revenue and profits (before significant items) with improved profit margins in an environment of disrupted global supply chains in the 26-week period ended 26 December 2021. This current reporting period has seen the confluence of industrial action impacting stevedores' operations, constrained global shipping capacity, shipping container dislocation, vessel bunching and port bypassing, over-capacity empty container yards, significantly increased freight costs, and scarcity of available labour and resources such as wooden pallets and diesel fuel additives.

The Group's agile business model was able to respond to these industry-wide issues and customer requirements to maintain critical service delivery requirements. The Port Logistics segment performed strongly with volumes (billed containers increased 10.5% on pcp) continuing to benefit from its time certain service delivery, along with the Group's ability to win new business, and retain and grow existing business. The integration and consolidation of the businesses acquired since financial year 2019 has delivered scale in the Port Logistics operations which has driven profit margin expansion.

In our Contract Logistics segment, warehousing storage capacity was increased by 4,517 pallet spaces (or 1.9%) over 2HFY21 levels through the addition of a new warehouse in NSW (3,500 pallet spaces) and reconfiguration of existing sites. Warehouse storage utilisation during the period was 81.6% (increasing from 74.4% pcp on lower capacity) having benefited from new business, continuing strong consumer demand for our customers products, and the shift to customers holding more stock to protect against supply chain disruptions. Our integrated port to door logistics service offer continues to deliver customer revenue growth in the Distribution business as we expand our 4PL service offer through new business, and expanded services and routes through an extension of our contractor carrier network.

During the period, the Group entered into a binding land purchase contract to acquire an 11-hectare greenfield site at Kemps Creek, NSW. The deposit to acquire the land, consulting and due diligence costs totalling $6.8 million were paid in the period. At reporting date these costs were held on balance sheet as other current assets. The Company is well progressed on its initiative to enter into a novation of land purchase agreement and lease with its preferred takeout party.

Whilst the COVID-19 pandemic has presented challenges in the financial period, the Group's agile business model, resilient customer segments, and the benefits of scale delivered through both organic growth and acquisitions in recent periods has protected the business from any significant negative impacts.

Dividends

A pre-IPO dividend of $10.0 million was recommended during the prior financial period. The recommended dividend was contingent on the IPO completing (which was achieved on 9 July 2021), and accordingly, the recommended dividend became payable (based on shareholdings prior to the offer share allocation) on that date. The dividend was partially paid on 7 July 2021 and the balance paid on 12 July 2021.

On 24 February 2022, the Board of Directors declared a fully franked interim dividend of 2.19 cents per ordinary share. The record date is 4 March 2022 and the dividend will be paid on 1 April 2022.

Outlook

Whist the recent industry-wide issues will continue to present some challenges through the remainder of FY22, the Group's agile business model and its customer industry verticals are expected to remain resilient.

It is the Company's strategic intent to undertake further acquisitions in coming periods. Acquisitions will be assessed on a case-by-case basis, with a view to broadening the Group's operating scale and national capabilities. The Group also expects to drive further margin growth through operational initiatives to reduce costs and cross-selling a broader suite of services across its customer base. The Group's focus to expand profit margins include initiatives for leased property consolidation, enhanced automation and utilising a modern, efficient, low-emission fleet of prime movers and other material handling equipment.

The timing of cash inflows, and accounting and tax treatments of the expected share in development profit, will be determined on finalisation of the Kemps Creek transfer of land and lease agreements.

The Company will assess future dividends to be paid based on its determination of the best use of capital in light of prevailing conditions at such times.

Corporate activities during the period

There were no changes in the consolidated entity's corporate activities in the financial period.

Impact of COVID-19 pandemic on operations

The COVID-19 pandemic and quarantine measures imposed by the Australian and international governments, as well as the travel and trade restrictions imposed by Australia and other countries through financial periods since March 2020, have caused disruption to businesses and economic activity. Both the Federal and State Governments' implemented policies and measures through calendar years 2020 and 2021 with the aim of containing the virus, with most jurisdictions requiring state-wide extended social and workplace restrictions. Given the national footprint of the consolidated entity's operations, and the essential services requirement for domestic and global supply chains to remain open, these measures had a negligible impact on the continuity of the Group's operations. The Group has worked closely with its employees, customers and suppliers to provide a safe workplace and minimise impacts and disruptions.

The Delta-variant outbreak experienced in this reporting period resulted in increased employee and extended workforce absenteeism, which was further elevated with the more infectious Omicron-variant arriving in late CY2021 and into CY2022.

As a result of constrained workforce availability, and global supply chain issues, both Port Logistics and Contract Logistics operations were impacted by import volume delays, a condensed peak period and lack of labour availability during the reporting period. Additional costs of approximately $1.0 million were incurred in the reporting period as a result of implementing COVID-19 safe workplace practices, high absenteeism, and higher labour costs associated with shift allowances, overtime and training to provide a safe workplace and meet customer demand.

The Group's business operations currently remain resilient in the face of the challenges presented by the COVID-19 pandemic.

The consolidated entity did not receive any financial assistance from the Federal or State Governments during the current or previous financial period.

Significant changes in the state of affairs

On 9 July 2021 the Company commenced trading on the ASX after completing its IPO. The IPO capital raise of $70.0 million comprised of a primary raise of $10.0 million and secondary raise of $60.0 million. Costs associated with the IPO have been recognised in both the current and previous reporting periods.

There were no other significant changes in the state of affairs of the consolidated entity during the financial period.

Matters subsequent to the end of the financial period

Subsequent to the end of the financial period, the events and matters set out below are relevant to the consolidated entity's future financial periods.

On 24 January 2022, the Company announced to the ASX that it had entered into a binding agreement to acquire the shares of 101Warehousing Pty Ltd ('101Warehousing'), a Victorian-based business-to-consumer ('B2C') Contract Logistics service provider with a strong presence in the fashion, homewares and toys sectors. Further, on 2 February 2022, the Company announced to the ASX that it had completed the acquisition of 101Warehousing. The acquisition consideration consists of an up-front payment of $1.3 million cash, issuance of Company shares to the value of $5.0 million, and deferred contingent consideration based on the post-acquisition twelve months (pre-AASB16 *Leases*) earnings before interest, tax, depreciation and amortisation at a multiple of 4.2 times less the up-front consideration. The deferred contingent consideration (dependent on earnings) includes a minimum component of shares in the company to be issued. The up-front and deferred contingent consideration shares issued are subject to an escrow period. The up-front consideration and associated costs were funded by $1.7 million bank debt and the Group increased its bank guarantee facility by $1.5 million (new limit $14.5 million) to accommodate 101Warehousing's property leases. Costs associated with the acquisition of $0.3 million were incurred in the current reporting period and have been recognised in the statement of profit or loss. The Company is in the process of determining the fair value of acquired assets, liabilities and deferred contingent consideration, and expects to complete that exercise by financial year end reporting date.

Apart from the above matters, no other matter or circumstance has arisen since 26 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial periods.

Likely developments and expected results of operations

At the date of this report, uncertainty remains with the impact on the economy of the current COVID-19 Omicron-variant, and any future variants of COVID-19. Despite the resilience of the Australian economy, emerging economic data pointing to higher inflation, sooner than previously forecast Reserve Bank of Australia interest rate increases, and a looming Federal election may dampen consumer demand and business confidence in the short-term.

Nonetheless, the consolidated entity's strategic intent remains on growing its market share, delivering a full suite of services to its customers, driving operational efficiencies across its property footprint, and leveraging from its agile business model. The consolidated entity's focus on superior customer service delivery is built around strong relationships and supported by technology-enabled solutions. Along with strategic business acquisitions, these remain key areas in future periods to drive growth and deliver enhanced shareholder value.

Environmental regulations

The consolidated entity's operations are regulated by environmental regulations under laws of the Commonwealth or of a State or Territory.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Non-audit services provided during the financial period by the auditor consisted of tax compliance and advisory services.

Officers of the Company who are former partners of Deloitte Touche Tohmatsu

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

Rounding of amounts

The Company is a company of a kind referred to in ASIC Corporations *(Rounding in Financials/Directors Reports) Instrument 2016/191*, dated 24 March 2016 and in accordance with that Corporations Instrument amounts in this director's report are rounded to the nearest thousand dollars, unless otherwise indicated.

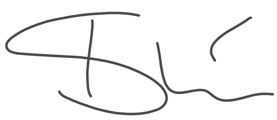
Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after the directors' declaration.

On behalf of the Directors,



Terry Sinclair
24 February 2022

Auditor’s independence declaration

Deloitte.

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24 February 2022

The Board of Directors
Silk Logistics Holdings Limited
850 Lorimer Street
PORT MELBOURNE VIC 3207

Dear Board Members

Auditor’s Independent Declaration to Silk Logistics Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Silk Logistics Holdings Limited.

As lead audit partner for the review of the financial report of Silk Logistics Holdings Limited for the half-year ended 26 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

Condensed consolidated statement of profit or loss and other comprehensive income

For the period ended 26 December 2021

	Note	Consolidated 26 weeks ended 26 December 2021 $'000	Consolidated 26 weeks ended 27 December 2020 $'000
Revenue	4	182,371	153,873
Other income		801	312
Expenses			
Employee benefits expense		(37,970)	(34,949)
Subcontractors and labour agency expenses		(55,604)	(45,025)
Fleet and material handling equipment expenses		(11,892)	(9,199)
Occupancy expense		(4,596)	(3,687)
Other transport & warehousing expenses		(34,623)	(27,176)
Administration expense		(5,175)	(4,134)
Finance costs		(3,827)	(4,407)
Depreciation and amortisation expense		(18,958)	(18,341)
IPO-related expenses	5	(5,427)	–
Change in measurement of financial instrument		514	(667)
Profit before income tax expense		5,614	6,600
Income tax expense		(2,133)	(2,341)
Profit after income tax expense for the period attributable to the owners of Silk Logistics Holdings Limited		3,481	4,259
Other comprehensive income for the period, net of tax		–	–
Total comprehensive income for the period attributable to the owners of Silk Logistics Holdings Limited		3,481	4,259

		Cents	Cents
Basic earnings per share	14	4.61	18.92
Diluted earnings per share	14	4.56	6.28

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated statement of financial position

As at 26 December 2021

	Note	Consolidated 26 December 2021 $'000	Consolidated 27 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents	6	17,118	25,264
Trade and other receivables		54,276	47,705
Other current asset		11,887	3,703
Total current assets		83,281	76,672
Non-current assets			
Property, plant and equipment		12,064	13,281
Right-of-use assets		144,000	156,729
Intangibles		33,990	34,272
Deferred tax		12,274	11,212
Other non-current assets		–	136
Total non-current assets		202,328	215,630
Total assets		285,609	292,302
Liabilities			
Current liabilities			
Trade and other payables		30,752	29,820
Borrowings	7	–	8,000
Lease liabilities		35,675	34,820
Current tax liabilities		7,105	5,032
Provisions		10,828	10,500
Other financial liabilities		–	6,000
Total current liabilities		84,360	94,172
Non-current liabilities			
Borrowings	7	15,000	8,000
Lease liabilities		129,587	144,004
Provisions		3,082	3,286
Total non-current liabilities		147,669	155,290
Total liabilities		232,029	249,462
Net assets		53,580	42,840
Equity			
Issued capital	8	68,033	52,226
Reserves		(23,001)	(24,453)
Retained profits		8,548	15,067
Total equity		53,580	42,840

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity

For the period ended 26 December 2021

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 29 June 2020	52,186	(24,453)	6,678	34,411
Profit after income tax expense for the period	–	–	4,259	4,259
Other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	–	–	4,259	4,259
Issued capital	40	–	–	40
Balance at 27 December 2020	52,226	(24,453)	10,937	38,710

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 28 June 2021	52,226	(24,453)	15,067	42,840
Profit after income tax expense for the period	–	–	3,481	3,481
Other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	–	–	3,481	3,481
Transactions with owners in their capacity as owners:				
Shares issued as part of initial public offering	70,000	–	–	70,000
Share buy-back	(60,000)	–	–	(60,000)
Conversion of deferred contingent consideration to shares	6,000	–	–	6,000
Share issue cost, net of tax	(717)	–	–	(717)
Share-based payments (note 10)	–	1,976	–	1,976
Dividends paid	–	–	(10,000)	(10,000)
Exercise of options	524	(524)	–	–
Balance at 26 December 2021	68,033	(23,001)	8,548	53,580

The reserves balance at 28 June 2021 relates to a share buy-back undertaken in the financial year ended June 2017.

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed consolidated statement of cash flows

For the period ended 26 December 2021

		Consolidated	
	Note	26 weeks ended 26 December 2021	26 weeks ended 27 December 2020
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		193,240	156,825
Payments to suppliers and employees (inclusive of GST)		(167,896)	(136,608)
		25,344	20,217
Interest received		1	2
Interest and other finance costs paid		(3,827)	(4,393)
Tax paid		(1,121)	(621)
Initial public offer costs		(4,435)	–
Net cash from operating activities		15,962	15,205
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(1,323)	(1,009)
Payments to acquire land		(6,776)	–
Proceeds from disposal of property, plant and equipment		1,298	712
Net cash used in investing activities		(6,801)	(297)
Cash flows from financing activities			
Proceeds from issue of equity	8	70,000	–
Initial public offer costs		(739)	–
Payments for share buy-back	8	(60,000)	–
Dividends paid	9	(10,000)	–
Proceeds from borrowings	7	7,000	–
Repayment of borrowings	7	(8,000)	(7,000)
Repayment of lease liabilities		(15,568)	(14,843)
Net cash used in financing activities		(17,307)	(21,843)
Net decrease in cash and cash equivalents		(8,146)	(6,935)
Cash and cash equivalents at the beginning of the financial period		25,264	19,820
Cash and cash equivalents at the end of the financial period		17,118	12,885

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements

26 December 2021

Note 1. General information

The financial statements cover Silk Logistics Holdings Limited as a consolidated entity consisting of Silk Logistics Holdings Limited and the entities it controlled at the end of, or during, the 26 weeks ended 26 December 2021. The financial statements are presented in Australian dollars, which is Silk Logistics Holdings Limited's functional and presentation currency.

Silk Logistics Holdings Limited is a listed public company limited by shares incorporated and domiciled in Australia.

Registered office and principal place of business

Unit 3, 850 Lorimer Street, Port Melbourne VIC 3207

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 February 2022.

Note 2. Significant accounting policies

Statement of compliance

These general purpose financial statements for the interim 26-week reporting period ended 26 December 2021 have been prepared in accordance with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 27 June 2021.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Going concern

The financial report has been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into two operating segments: Port Logistics (being the transport of shipping containers) and Contract Logistics (warehousing operations and distribution services). These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Intersegment transactions

No intersegment transactions are included in segment results presented below.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

The consolidated entity does not have a major customer that contributes more than 10% or more to the consolidated entity's revenue.

Operating segment information

	Port Logistics	Contract Logistics	Corporate^	Total
Consolidated – December 2021	**$'000**	**$'000**	**$'000**	**$'000**
Revenue				
Sales to external customers	114,002	68,369	–	182,371
Total revenue	114,002	68,369	–	182,371
Other income	680	121	–	801
Segment operating expenses	(100,239)	(49,363)	(5,171)	(154,773)
EBITDA	14,443	19,127	(5,171)	28,399
Depreciation & amortisation expense	(6,196)	(12,762)	–	(18,958)
EBIT	8,247	6,365	(5,171)	9,441
Finance cost	(904)	(2,923)	–	(3,827)
Profit/(loss) before income tax benefit	7,343	3,442	(5,171)	5,614

^ Corporate expenses are related to the IPO and acquisition of 101Warehousing Pty Ltd (refer note 13 – events after the reporting period).

	Port Logistics	Contract Logistics	Corporate	Total
Consolidated – December 2020				
Revenue				
Sales to external customers	95,434	58,439	–	153,873
Total revenue	95,434	58,439	–	153,873
Other income	245	67	–	312
Segment operating expenses	(84,977)	(39,860)	–	(124,837)
EBITDA	10,702	18,646	–	29,348
Depreciation & amortisation expense	(6,018)	(12,323)	–	(18,341)
EBIT	4,684	6,323		11,007
Finance cost	(1,073)	(3,334)	–	(4,407)
Profit/(loss) before income tax benefit	3,611	2,989	–	6,600

Operating segment comparative figures have been adjusted to conform to changes in presentation in the current period.

Revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Segment earnings before interest, tax, depreciation and amortisation (EBITDA) and earnings before interest and tax (EBIT) represents the profit/(loss) earned by each segment including the allocation of the share of corporate overhead costs including directors' salaries, non-operating gains and losses in respect of financial instruments and finance costs. This is the measure reported to the Group's Board of Directors for the purpose of resource allocation and assessment of segment performance.

Note 4. Revenue

Revenue from contracts with customers is categorised into the reportable segments disclosed below. Revenue is recognised when the performance obligations are delivered at point in time except for port logistics and storage services which are recognised over time. Once a contract has been executed, the Group has an enforceable right to payment for work completed to date.

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	26 weeks ended 26 December 2021	26 weeks ended 27 December 2020
	$'000	$'000
Port Logistics	114,002	95,434
Distribution	14,475	8,030
Storage	21,688	19,160
Handling	32,206	31,249
Revenue	182,371	153,873

	Consolidated	
	26 weeks ended 26 December 2021	26 weeks ended 27 December 2020
	$'000	$'000
Timing of revenue recognition		
Goods transferred at a point in time	46,681	39,279
Services transferred over time	135,690	114,594
	182,371	153,873

Note 5. IPO-related expenses

	Consolidated	
	26 December 2021	27 December 2021
	$'000	$'000
IPO-related expenses	5,427	–

IPO-related expenses incurred in the current period comprised advisory and underwriting costs of $3.6 million and share-based payments of $1.8 million.

Note 6. Cash and cash equivalents

	Consolidated	
	26 December 2021	27 June 2021
	$'000	$'000
Cash at bank and in hand	17,118	25,264

Note 7. Borrowings

	Consolidated	
	26 December 2021	27 June 2021
	$'000	$'000
External borrowings – secured	15,000	16,000

	Consolidated	
	26 December 2021	27 June 2021
	$'000	$'000
External borrowings – current	–	8,000
External borrowings – non-current	15,000	8,000
	15,000	16,000

On 2 August 2021, the Company replaced the finance facilities that had existed as at 27 June 2021 with finance facilities provided by National Australia Bank, consisting of: corporate loan $8.0 million, working capital $8.0 million, bank guarantee $13.0 million and asset finance $4.0 million.

Under the finance facility agreement amortising repayments are not due unless certain financial undertakings are not met for a defined period of time. There were no periods of non-compliance with the financial undertakings in the facility agreement in the current period. Fixed and floating charges are provided by the Group in respect to the financing facility. The term of the debt facilities is two years with revised financial undertakings.

Repayments made in the current financial period (in respect of the financing facilities in place at 27 June 2021) were $8.0 million (2021: $7.0 million), and proceeds from borrowings (from the current facilities) was $7.0 million (2021: $nil). All borrowings in the current reporting period were classified as non-current and are subject to the debt facility expiring on 2 August 2023.

The bank facility includes a bank guarantee facility of $13.0 million which is used as security against certain leased premises. At 26 December 2021, $11.8 million of the facility has been utilised (June 2021: $11.8 million).

Subsequent to period end, the finance facilities have been extended to include a corporate loan of $1.7 million and the bank guarantee increased by $2.5 million to accommodate the up-front cash consideration and lease guarantee commitments relating to the acquisition of 101Warehousing. Refer note 13 – events after the reporting period.

Note 8. Issued capital

	Consolidated			
	26 December 2021	27 June 2021	26 December 2021	27 June 2021
	Shares	Shares	$'000	$'000
Ordinary shares – fully paid	76,024,462	22,506,532	68,033	5,000
Preference shares – fully paid	–	45,255,430	–	47,226
	76,024,462	67,761,962	68,033	52,226

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	28 June 2021	22,506,532		5,000
Conversion of preference shares	6 July 2021	45,255,430	–	47,226
Share buy-back	6 July 2021	(30,000,000)	$2.00	(60,000)
Shares issued as part of initial public offering	6 July 2021	35,000,000	$2.00	70,000
Conversion of deferred contingent consideration to shares	6 July 2021	3,000,000	$2.00	6,000
Options exercised		262,500	$2.00	524
Share issue costs, net of tax		–	–	(717)
Balance	26 December 2021	76,024,462		68,033

Movements in preference share capital

Details	Date	Shares	Issue price	$'000
Balance	28 June 2021	45,255,430		47,226
Conversion of preference shares	6 July 2021	(45,255,430)	–	(47,226)
Balance	26 December 2021	–		–

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 9. Dividends

A pre-IPO dividend of $10.0 million was paid and recognised during the current reporting period.

On 24 February 2022, the Board of Directors declared a fully franked interim dividend of 2.19 cents per ordinary share. The record date is 4 March 2022 and the dividend will be paid on 1 April 2022. The total dividend cash payment is expected to be $1.7 million. There were no dividends paid, recommended or declared in the prior reporting period.

Note 10. Share-based payments

Pre-IPO options – Senior executive and other employees

Prior to the IPO the Company offered 547,500 Zero Priced Options (ZEPOs) to Senior Executives and other key employees of the Group under the Pre-IPO Bonus Offer, with the grant occurring immediately upon ASX listing. The terms specific to these ZEPOs are set out below and constitute a once-off offer to reward certain employees and Senior Executives for their contribution to the Company, and the performance achieved under their stewardship, prior to completion of the IPO.

- Expiry – the ZEPOs expire on the date that is 6 years from the date of their grant.
- Equity settled – the ZEPOs can only be equity settled.
- Exercise price – nil.
- Vesting – upon granting.
- Exercise – no exercise conditions. Each ZEPO is exercisable into one share.
- Disposal restrictions – The ZEPOs are not generally transferrable without consent of the Board. The resulting shares are subject to a disposal restriction until 24 hours after the Company’s announcement of the full year audited results for FY22 on the ASX.

During the period 262,500 ZEPOs were exercised. There were no further grants, forfeitures or expired ZEPOs in the period.

At reporting date, 285,000 ZEPOs are outstanding and exercisable with a remaining life of 5.5 years and fair value per ZEPO of $1.996.

Share-based payments expense recognised in IPO-related expenses in the period was $1.1 million (December 2020: $nil). There was no share-based payment plan in place in the previous corresponding period.

Pre-IPO options – Non-executive Directors

Prior to the IPO the Company offered certain Options to the Non-Executive Directors under the Pre-IPO Bonus Offer, with those Options to be granted immediately upon ASX listing. These Options were:

- 672,039 Ordinary Options; and
- 180,000 ZEPOs.

The Company attributed a total value of $0.9 million to these Options based on the Black-Scholes valuations. The key terms specific to the Ordinary Options and ZEPOs granted under the Pre-IPO Bonus Offer are set out below. These Options constitute a once-off offer to reward the Non-Executive Directors for their contribution to the Company, and the performance achieved under their stewardship, prior to completion of the IPO.

- Expiry – the Ordinary Options and ZEPOs expire on the date that is 4 years and 6 years respectively from the date of their grant.
- Equity settled – the Options can only be equity settled.
- Exercise price – the ZEPOs have a nil exercise price. The Ordinary Options are exercisable at a 20% discount to the IPO Offer Price, being $1.60 per Option.
- Vesting – in relation to the 90,000 ZEPOs, these Options will only vest upon the date that is 3 years from the grant date and on the recipient remaining continuously engaged by the Group at all times during this period. The remaining Options vested immediately upon granting.
- Exercise – no exercise conditions. Each Option is exercisable into one share.
- Disposal restrictions – the Options are not generally transferrable without consent of the Board. Other than the resulting Shares arising from the exercise of 90,000 ZEPOs, the resulting Shares will be subject to a disposal restriction until 24 hours after the Company's announcement of the full year audited results for FY22 on the ASX.

During the period no Options were exercised. There were no further grants, forfeitures or expired Options in the period.

At reporting date, 672,039 Ordinary Options and 180,000 ZEPOs are outstanding and exercisable with a remaining average life of 3.5 years and 5.5 years respectively. The fair values per Ordinary Option are $0.82 and ZEPOs are $1.774 and $1.996.

Share-based payments expense recognised in the period in IPO related expenses was $0.7 million (December 2020: $nil). There was no share-based payment plan in place in the previous corresponding period.

Long-Term Incentive Plan

Under the Long-Term Incentive Plan (LTIP), the Board granted up to 842,822 Ordinary Options to select Senior Executives and key employees of the Group. The Options were granted immediately upon ASX listing. The terms specific to Ordinary Options granted under the LTIP are set out below:

- Expiry – on the date that is 5 years from the date of grant.
- Equity settled – other than the Ordinary Options granted to Executive Directors (which can be either cash or equity settled), the Ordinary Options can only be equity settled.
- Exercise price – the 842,822 Ordinary Options granted upon ASX listing are exercisable at a 20% discount to the IPO Offer Price, being $1.60 per Option.
- Vesting – the number of Ordinary Options granted represents 150% of the participant's entitlement. The actual number of Ordinary Options that will vest will depend on satisfaction of the vesting conditions (summarised below):
  - Safety and Pre-AASB16 *Leases* earnings before interest and tax targets;
  - Service – the participant remains employed or engaged by a Group company for 3 years from the date of grant; and
  - Performance – EPS growth (based on 3 years compounding annual growth rate (CAGR)) achieved between 28 June 2021 and 30 June 2024.
- Exercise – no exercise conditions. Unless cash settled (applicable to Executive Director options only) each Option is exercisable into one Share.
- Disposal restrictions – the Options are not generally transferrable without consent of the Board.

During the period no Options vested, and there were no further grants, forfeitures or expired Options in the period.

At reporting date, 842,822 Ordinary Options are outstanding and exercisable with a remaining average life of 4.5 years and fair value per Ordinary Option is $0.8662.

Share-based payments expense recognised in the period in employee benefits expense was $152,000 (December 2020: $nil). There was no share-based payment plan in place in the previous corresponding period.

Non-Executive Director Appointment Options

During the period, the Board granted 194,553 Ordinary Options to the newly appointed Non-executive Director effective 15 November 2021. The terms specific to Ordinary Options granted are set out below:

- Expiry – 4 years from the date of their grant.
- Equity settled – the Options can only be equity settled.
- Exercise price – the Ordinary Options are exercisable at $2.15 per Option (based on the 5-day volume weight average price prior to grant date).
- Vesting – will only vest upon the date that is 4 years from the grant date and on the recipient remaining continuously engaged by the Group at all times during this period.
- Exercise – no exercise conditions. Each Option is exercisable into one Share.
- Disposal restrictions – the Options are not generally transferrable without consent of the Board.

During the period no Options vested, and there were no further grants, forfeitures or expired Options in the period.

At reporting date, 194,553 Ordinary Options are outstanding and exercisable with a remaining average life of 4 years and fair value per Ordinary Option is $0.649.

Note 11. Contingent liabilities and commitments

As at the date of this report, the Group has provided security for bank guarantees to the value of $11.8 million (June 2021: $11.8 million) which have been issued by its financier to landlords of properties that the Group leases for the purpose of conducting its business. Refer note 7.

During the period the Group entered into a binding land purchase contract to acquire an 11-hectare greenfield site at Kemps Creek, NSW. The deposit to acquire the land, consulting and due diligence costs totalling $6.8 million were paid in the period. At reporting date these costs were held on balance sheet as other current assets. The Company is well progressed on its initiative to enter into a novation of land purchase agreement and lease with its preferred takeout party.

Note 12. Business combinations

There were no business combination transactions during the 26 weeks ended 26 December 2021. Refer note 13 – events after the reporting period.

Note 13. Events after the reporting period

Subsequent to the end of the financial period, the events and matters set out below are relevant to the consolidated entity's future financial periods.

On 24 January 2022, the Company announced to the ASX that it had entered into a binding agreement to acquire the shares of 101Warehousing, a Victorian-based B2C Contract Logistics service provider with a strong presence in the fashion, homewares and toys sectors. Further, on 2 February 2022, the Company announced to the ASX that it had completed the acquisition of 101Warehousing. The acquisition consideration consists of an up-front payment of $1.3 million cash, issuance of Company shares to the value of $5.0 million, and deferred contingent consideration based on the post-acquisition twelve months (Pre-AASB16 *Leases*) earnings before interest, tax, depreciation and amortisation at a multiple of 4.2 times less the up-front consideration. The deferred contingent consideration (dependent on earnings) includes a minimum component of shares in the company to be issued. The up-front and deferred contingent consideration shares issued are subject to an escrow period. The up-front consideration and associated costs were funded by $1.7 million bank debt and the Group increased its bank guarantee facility by $1.5 million (new limit $14.5 million) to accommodate 101Warehousing's property leases. Costs associated with the acquisition of $0.3 million were incurred in the current reporting period and have been recognised in the statement of profit or loss. The Company is in the process of determining the fair value of acquired assets, liabilities and deferred contingent consideration, and expects to complete that exercise by financial year end reporting date.

Apart from the above matters, no other matter or circumstance has arisen since 26 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial periods.

Note 14. Earnings per share

	Consolidated	
	26 weeks ended 26 December 2021	26 weeks ended 27 December 2020
	$'000	$'000
Profit after income tax attributable to the owners of Silk Logistics Holdings Limited	3,481	4,259

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	75,583,459	22,506,532
Effect of dilutive potential ordinary shares:		
Preference shares	–	45,255,430
Share options	683,903	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	76,267,362	67,761,962

	Cents	Cents
Basic earnings per share	4.61	18.92
Diluted earnings per share	4.56	6.28

Due to changes in the Company's share structure in the prior period, the number of shares on issue after the share consolidation and split has been applied to the comparative period for the purpose of calculating basic and diluted earnings per share.

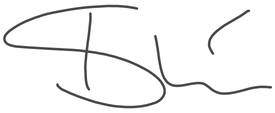
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 26 December 2021 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors,



Terry Sinclair
24 February 2022

Independent auditor's review

Deloitte.

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Independent Auditor's Review Report to the Members of Silk Logistics Holdings Limited

Conclusion

We have reviewed the half-year financial report of Silk Logistics Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 26 December 2021, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 26 December 2021 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Deloitte.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 26 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 24 February 2022

Corporate directory

Directors

Mr Terry Sinclair

Mr Brendan Boyd

Mr John Sood

Mr Stephen Moulton

Ms Louise Thurgood
(appointed as a Non-Executive Director,
effective 15 November 2021)

Company secretary

Ms Melanie Leydin

Registered office

Unit 3, 850 Lorimer Street
Port Melbourne VIC 3207

Principal place of business

Unit 3, 850 Lorimer Street
Port Melbourne VIC 3207

Share register

Boardroom Pty Limited

Level 7, 411 Collins Street
Melbourne VIC 3000

www.boardroomlimited.com.au

Auditor

Deloitte Touche Tohmatsu

477 Collins Street
Melbourne VIC 3000

Stock exchange listing

Silk Logistics Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: SLH)

Website

www.silklogisticsholdings.com.au

Silk Logistics Holdings Limited
ABN 45 165 867 372