Half Year Report

period ended 31 December 2023

SILK
LOGISTICS
HOLDINGS

Silk Logistics Holdings Limited ('Silk', the 'Group' or the 'Company') is pleased to provide you with its Half Year Report for Financial Year 2024 ('1HFY24'). 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 (ABN 45 165 867 372), Silk Contract Logistics Pty Ltd (ABN 56 006 444 355), Rocke Brothers Pty Ltd (ABN 60 100 734 469), 101Warehousing Pty Ltd (ABN 20 154 887 715), Fremantle Freight & Storage Pty Ltd (ABN 92 079 923 327), Secon Freight Logistics Pty Ltd (ABN 88 619 650 609) and other controlled entities at the end of, or during the half-year ended 31 December 2023.

About Silk Logistics Holdings Limited

Silk is a leading Australian logistics provider. With a strong national footprint and an integrated port-to-door approach, Silk delivers exceptional solutions through its best-in-class operating segments.

Our focus at Silk is to operate a business that is agile, responsive to customers, capable of adapting to changing market dynamics, and scalable. Silk has delivered resilient revenue and underlying EBITDA growth over the prior corresponding period ('pcp'), and continues to invest in its people, processes, and systems to deliver its next phase of growth. Silk is listed on the Australian Securities Exchange ('ASX') under code SLH.

Non-IFRS financial information

The 2024 Half Year Report contains certain non-IFRS financial measures of earnings before interest, tax, depreciation and amortisation ('EBITDA') and earnings before interest and tax ('EBIT'). Underlying performance measures exclude the impact of significant items, which are profit or loss items associated with merger and acquisitions activity, depreciation, amortisation and interest on the fair value uplifts of assets and liabilities recognised on business acquisition, capital restructures or certain one-off events included in reporting periods that are not reflective of underlying business activities.

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 the financial position of the Group. Non-IFRS measures are not subject to audit or review.

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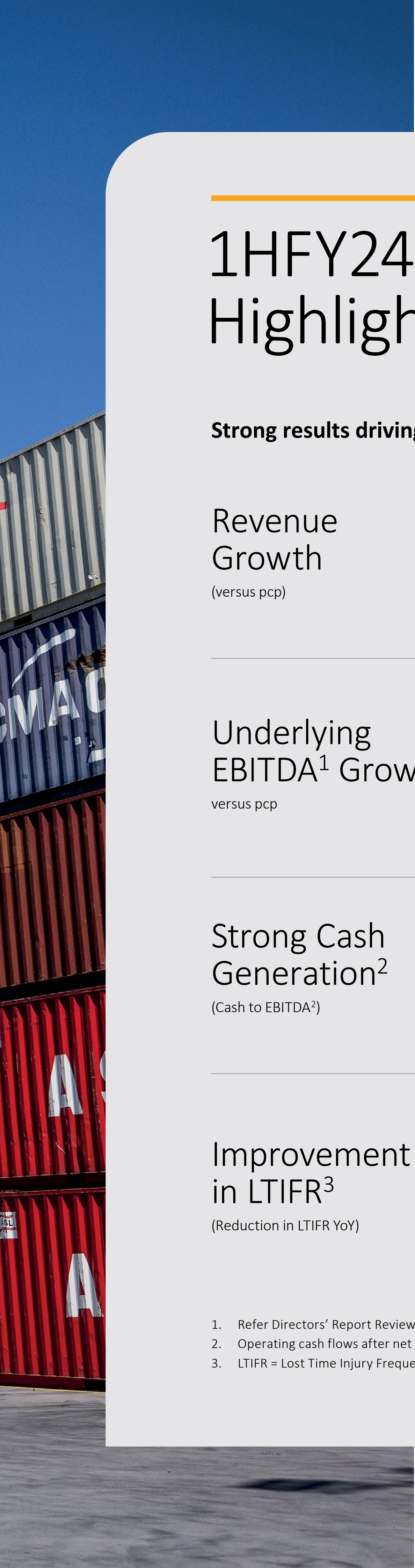

1HFY24 Performance Highlights

Strong results driving future growth

Revenue Growth
(versus pcp)

↑ 9.0%

Underlying EBITDA[1] Growth
versus pcp

↑ 7.9%

Strong Cash Generation[2]
(Cash to EBITDA[2])

79.0%

Improvement in LTIFR[3]
(Reduction in LTIFR YoY)

↓ 0.6
(versus 2.8 FY23)

1. Refer Directors' Report Review of Operations.
2. Operating cash flows after net capital expenditure. Refer FY24 half-year investor presentation.
3. LTIFR = Lost Time Injury Frequency Rate. LTIFR is reported as a rolling 12-month average to the end of the reporting period.

Corporate Directory

Directors

Mr Terry Sinclair
Mr Brendan Boyd
Mr John Sood
Mr Stephen Moulton
Ms Louise Thurgood
Ms Cheryl Hayman

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

Directors' Report

31 December 2023

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'SIlk', '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 half-year period ('the period') ended 31 December 2023 (with comparatives for the half-year ended 25 December 2022).

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
Ms Cheryl Hayman

Principal activities

The consolidated entity's principal activities during the period consisted of the provision of port logistic and contract logistic services. Port logistics operations consist of wharf cartage services; whilst contract logistics consists of warehousing and distribution services.

The consolidated entity has 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.

Other matters or circumstances arising since 31 December 2023 that have 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 are set out within this directors' report in the matters subsequent to the end of the financial period section.

Review of operations

The Group recorded revenue of $276,506,000 (December 2022: $253,635,000) and underlying net profit after tax of $7,644,000 (December 2022: $9,779,000). Statutory net profit after tax was $6,176,000 (December 2022: $8,828,000).

The reconciliation of current period statutory and underlying profit measures is provided below. Significant items excluded from underlying earnings are related to acquisition costs, depreciation, amortisation and interest associated with the uplift of fair values of assets and liabilities recognised on acquisition, and costs associated with the discontinued Kemps Creek site, as well as corporate restructure costs.

$'000	EBITDA	D&A	EBIT	Finance Costs	PBT	Tax	NPAT
Statutory earnings	**46,776**	**30,135**	**16,641**	**8,557**	**8,084**	**1,908**	**6,176**
Add back/(deduct)							
M&A costs[1]	596	–	596	–	596	30	566
Discontinued site costs[2]	183	–	183	–	183	55	128
Corporate restructure costs[3]	140	–	140	–	140	42	98
Depreciation, amortisation & interest on fair value of acquired assets and liabilities[4]	–	641	641	324	965	289	676
Underlying earnings	**47,695**	**29,494**	**18,201**	**8,233**	**9,968**	**2,324**	**7,644**

1. Costs associated with the acquisition of Secon Freight Logistics which was completed 1 September 2023.
2. Costs associated with the discontinued Kemps Creek, NSW site as announced on 14 November 2023.
3. Costs associated with corporate restructure activities.
4. Depreciation and amortisation on the fair value uplifts recognised from the provisional purchase price accounting on acquisition of Secon Freight Logistics so as to reflect the underlying contribution of the business before any provisional fair value uplifts. Interest expense relates to the unwind of the present value of the contingent consideration payable on acquisition of Secon Freight Logistics.

Revenue growth in the current period has been underpinned by annualised sales wins of $23,600,000 across the three service lines and augmented by revenue generated by Secon Freight Logistics ('Secon') and Fremantle Freight and Storage Pty Ltd ('FFS'), which were acquired in September 2023 and September 2022 respectively.

The acquisition of Secon Freight Logistics ('Secon') in the current period is another important advancement in the Group's national integrated port-to-door service offer by further expanding our bulk logistics capability along the Eastern seaboard and providing bonded warehousing services.

The current period was characterised by the industry-wide inventory correction as customers transitioned to 'just-in-time' stock holding levels from the COVID-19 impacted 'just-in-case' levels. This transition commenced in the second half of the previous financial year and continued through the current period.

The industry trends evident in this current period are consistent with the Group's FY23 full year outlook statement which pointed to subdued import volumes and an easing of the warehouse occupancy level. The impact has been mitigated by strong export volumes, a continued focus on delivering new sales wins, the cross-selling of our integrated service lines, and driving operational efficiencies to reduce our cost to serve.

The current period also saw the national prolonged industrial action on the ports, particularly in DP World operations, impact the flow of containers into and out of the country and the movement of containers to and from the ports. This disruption has delayed the recognition of some revenue in the current period.

The Group's business model has remained resilient despite these industry challenges and the variable cost model has responded positively to adjust the variable cost base, in line with volumes, to protect profit margins.

Our port logistics segment has a healthy mix of import and export container volumes, and strong export volumes through our agriculture customers have cushioned the impact of lower import volumes.

In our contract logistics segment, lower warehouse occupancy levels have been mitigated by labour and operating efficiencies to improve warehouse handling margins. These measures have included the re-lay of warehouse inventory pick paths, labour planning utilising dashboards to ensure optimal labour force and permanent and casual labour mix, and de-hiring under-utilised material handling equipment.

The Group's distribution service line has continued its turnaround in operating performance through the review of customer rate cards and subcontractor utilisation to improve margins.

During the period Silk terminated the agreement for lease at the Kemps Creek site in NSW due to escalating construction costs and the resultant unfavourable impacts to commercial lease terms. As previously reported, the agreement was terminated at no cost to Silk.

Whilst COVID-19 remained as a factor during the period with unplanned absenteeism and staff attrition continuing at higher than pre-pandemic levels, our adaptable ways of working saw operations continue without any significant disruption.

The Group reviews risks on a periodic basis and continues to develop its risk framework and processes to proactively identify, measure, monitor and mitigate risks to an acceptable level. Rising input costs, integration of acquired businesses, cyber security, dependency on international trade and supply chain channels, interest rates, a weakening economic environment and ESG (Sustainability) have been identified as the most significant risks being managed by the Group. Such risks could inhibit the Group's ability to service its customers and adversely impact profit.

Accordingly, management strategies in place include:

Recovery of rising input costs

Rising input costs have the potential to reduce profit margins where those costs cannot be recovered from customers. Significant input costs are property leases, labour, fleet and material handling equipment ('MHE'), stevedore charges and transport costs. Property lease agreements include annual defined cost adjustments and/or periodic market rate reviews, whilst fleet and MHE leases are fixed for the term of each lease (generally 3-7 years). Labour costs are largely subject to minimum award rates, enterprise agreements and, in respect of unregulated labour, market forces. The Group's customer contracts and agreements provide a mechanism for the Group to recover cost increases or pass on decreases, including an overhead component. Cost input reviews are conducted at least annually in multi-year agreements and more regularly if required. The Group's general terms and conditions permit the pass through of input costs (such as stevedore charges and transport costs) in the port logistics and distribution service lines.

Integration of acquired businesses

Acquired businesses are integrated to align with Group policies and procedures, and systems and processes where benefits are identified and validated. Integrations are planned and executed under a managed program of work to ensure minimal disruption to business operations and deliver sustainable benefits. An assessment of integration risks and opportunities is developed through a robust due diligence process and planning prior to the completion. Critical items are included in sale and purchase agreements, as conditions precedent or subsequent, to ensure risks are mitigated to an acceptable level prior to or soon after ownership.

Cyber security

A cyber security breach has the potential to disrupt the Group’s ability to provide efficient service delivery to its customers. The Group mitigates this risk by maintaining and regularly updating its suite of information technology security measures to restrict access to the Group operating systems, including multi-factor authentication, firewalls, phishing identification software, offsite and cloud hosted solutions. The Group conducts regular penetration testing and training to educate its workforce and ensure its security measures remain at the forefront of available market solutions.

International trade and supply chain channels

Variability in import and export containerised freight volumes caused by global shipping disruption and dislocation has the potential to impact the Group’s revenue and profit margins. The Group manages this risk by operating an asset-right variable cost model in respect of its workforce (permanent employees and contracted workforce through utilising labour agency and subcontractor fleet operators) and transport fleet assets through a combination of owned assets (highly utilised and specialised equipment), subcontractor owned fleet and casual hire fleet arrangements. The mixture of permanent, agency and subcontractor labour force, allows the Group to access multiple sources of suitably skilled labour resources.

Interest rates

The Group actively monitors the interest rate environment to determine its position with respect to managing its cost of debt. Generally variable interest rates have prevailed given the level of debt in the business and sensitivity to interest rate increases has not been significant. As the Group pursues its growth strategy through acquisitions, interest rate sensitivity will become more prevalent. Fixed interest rates will be secured where our modelling indicates this to be a favourable position for the Group.

Weakening economic environment

The Group has identified a cohort of customer and industry segments that have proven to be resilient in softer economic conditions. The Group protects itself from economic downturns by maintaining an active and focused business development team, and operating an efficient business model which can compete strongly for new revenue streams. Core service delivery is also a major protection, and the Group’s average contracted customer tenure is 7.5 years, which reflects the business partnering services that the Group provides.

Global events and economic and market conditions risk

The Group’s revenue and earnings are influenced by a range of factors including global and domestic economic, political and health (ie pandemics) conditions which directly and indirectly affect the demand for Silk’s customers’ products and therefore Silk’s activity levels, as well as the intensity of competition in Silk’s core markets. Silk seeks to secure contract term commitments when it undertakes material capital investment for new contracts. These factors assist the Group in mitigating the impact of any material slowdown in economic activity or increased competitive conditions.

ESG (Sustainability) Risk

This risk exists if the Group isn’t sufficiently proactive in setting strategy, planning for, resourcing and delivering upon existing and emerging ESG reporting standards and investor requirements, or that we fail to meet targeted improvements (particularly environmental challenges, such as decarbonisation), leading to significant reputational damage and potential negative financial outcomes. Silk’s long-term success will be driven by the ability to adapt to an ever-evolving world while ensuring we deliver on our commitments to our customers, employees, community and shareholders. The Group has developed an ESG roadmap for the next five years across assets, facilities, service offers and systems. Silk continues to focus on its stated diversity goals. As the business grows, deliverables and progress will remain aligned with the United Nations Sustainability Development Goals (‘SDGs’).

Dividends

On 26 February 2024, the Board of Directors declared a fully franked interim dividend of 2.82 cents per ordinary share, with the record date of 4 March 2024 to be paid on 10 April 2024.

On 22 August 2023, the Board of Directors declared a fully franked final dividend for the year ended 25 June 2023 of 3.10 cents per ordinary share. The total dividend cash payment of $2.44 million was paid on 2 October 2023.

Outlook

Silk continues to focus on the prevailing market conditions. It expects to deliver revenue and underlying EBITDA growth in FY24, subject to no further adverse changes in economic conditions and the assumptions underpinning its FY24 forecasts.

Trading conditions are expected to remain challenging for the remainder of FY24. Silk will focus on preserving profitability through increased operational efficiencies, driving organic growth and integration of acquired businesses to realise synergy benefits. Silk maintains a positive outlook with respect to its business development pipeline and its customer value proposition to win further new business.

The Group developed its Five-year Strategic Plan (‘Strategic Plan’) in FY22. Silk has several key growth pillars, including an expansion of services, build-out of existing capability, further investment in technology, and operational initiatives aimed at growing revenue and profit. The Strategic Plan includes developing the roadmap for the Group’s ESG framework and target setting.

Significant changes in the state of affairs

On 11 September 2023, the Group acquired all of the issued and outstanding equity interests of Secon Freight Logistics Pty Ltd and its underlying Group (refer Note 12). 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

No matters or circumstance has arisen since 31 December 2023 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 years.

Likely developments and expected results of operations

The consolidated entity’s strategic intent is to grow its market share, deliver a full suite of services to its customers, drive operational efficiencies across its property footprint, and leverage its agile, asset-right business model. Silk also intends to live to The Silk Way and value, support and develop our people as we continue to grow. 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
Chair

27 February 2024

Auditor's Independence Declaration

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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27 February 2024

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

Dear Board Members

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 half-year financial report of Silk Logistics Holdings Limited for the half-year ended 31 December 2023, 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

Joshua Tanchel
Partner
Chartered Accountants

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period ended 31 December 2023

	Note	Consolidated 31 December 2023 $'000	Consolidated 25 December 2022 $'000
Revenue	4	276,506	253,635
Other income		680	777
Expenses			
Other transport & warehousing expenses		(52,424)	(44,744)
Fleet and material handling equipment expenses		(22,277)	(19,320)
Employee benefits expense		(59,646)	(49,966)
Depreciation and amortisation expense		(30,135)	(24,536)
Finance costs		(8,557)	(5,519)
Subcontractors and labour agency expenses		(79,438)	(80,375)
Occupancy expense		(7,496)	(7,171)
Administration expense		(9,129)	(9,726)
Profit before income tax expense		**8,084**	**13,055**
Income tax expense		(1,908)	(4,227)
Profit after income tax expense for the period attributable to the owners of Silk Logistics Holdings Limited		**6,176**	**8,828**
Other comprehensive income for the period, net of tax		–	–
Total comprehensive income for the period attributable to the owners of Silk Logistics Holdings Limited		**6,176**	**8,828**

		Cents	Cents
Basic earnings per share	14	7.67	11.20
Diluted earnings per share	14	7.67	11.17

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 31 December 2023

	Note	Consolidated 31 December 2023 $'000	Consolidated 25 June 2023 $'000
Assets			
Current assets			
Cash and cash equivalents	5	22,187	30,479
Trade and other receivables		69,553	63,058
Current tax assets		3,376	1,003
Other current assets	6	13,102	7,302
Total current assets		108,218	101,842
Non-current assets			
Property, plant and equipment		33,566	22,237
Right-of-use assets		200,057	163,036
Intangibles		95,358	62,140
Deferred tax		8,849	13,113
Total non-current assets		337,830	260,526
Total assets		**446,048**	**362,368**
Liabilities			
Current liabilities			
Trade and other payables		46,210	39,775
Borrowings	7	17,195	13,872
Lease liabilities		49,288	48,177
Provisions		14,329	14,453
Other financial liabilities		6,728	5,580
Total current liabilities		133,750	121,857
Non-current liabilities			
Borrowings	7	39,800	17,094
Lease liabilities		171,640	142,345
Provisions		8,562	5,665
Other financial liabilities		8,418	–
Total non-current liabilities		228,420	165,104
Total liabilities		**362,170**	**286,961**
Net assets		**83,878**	**75,407**
Equity			
Issued capital	8	79,370	74,370
Reserves		(23,206)	(22,948)
Retained profits		27,714	23,985
Total equity		**83,878**	**75,407**

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 31 December 2023

Consolidated	**Issued capital $'000**	**Reserves $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 27 June 2022	73,762	(23,577)	16,702	66,887
Profit after income tax expense for the period	–	–	8,828	8,828
Other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	–	–	8,828	8,828
Transactions with owners in their capacity as owners:				
Issued Capital	428	–	–	428
Issue of Shares as a result of exercise of Options	180	(180)	–	–
Share-based payments	–	403	–	403
Dividends paid	–	–	(4,959)	(4,959)
Balance at 25 December 2022	74,370	(23,354)	20,571	71,587

Consolidated	**Issued capital $'000**	**Reserves $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 26 June 2023	74,370	(22,948)	23,985	75,407
Profit after income tax expense for the period	–	–	6,176	6,176
Other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	–	–	6,176	6,176
Transactions with owners in their capacity as owners:				
Shares issued for the acquisition of Secon	5,000	–	–	5,000
Dividends paid	–	–	(2,447)	(2,447)
Share-based payments	–	(258)	–	(258)
Balance at 31 December 2023	79,370	(23,206)	27,714	83,878

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 31 December 2023

	Note	Consolidated 31 December 2023 $'000	25 December 2022 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		306,289	278,368
Payments to suppliers and employees (inclusive of GST)		(260,620)	(234,185)
		45,669	44,183
Interest received		22	27
Interest and other finance costs paid		(8,557)	(5,763)
Tax paid		(4,052)	(9,252)
Net cash from operating activities		33,082	29,195
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	12	(29,251)	(17,300)
Payments for property, plant and equipment and intangible assets		(5,694)	(3,015)
Proceeds from disposal of property, plant and equipment		471	1,130
Net cash used in investing activities		(34,474)	(19,185)
Cash flows from financing activities			
Proceeds from borrowings		38,227	18,000
Repayment of borrowings		(12,198)	–
Deferred contingent consideration paid		(6,500)	–
Dividends paid	9	(2,447)	(4,959)
Repayment of lease liabilities		(23,982)	(20,892)
Net cash used in financing activities		(6,900)	(7,851)
Net increase in cash and cash equivalents		(8,292)	2,159
Cash and cash equivalents at the beginning of the financial period		30,479	31,964
Cash and cash equivalents at the end of the financial period		22,187	34,123

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

Notes to the Condensed Consolidated Financial Statements

31 December 2023

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 ('the Group' or 'the consolidated entity') at the end of, or during, the half-year ended 31 December 2023 ('the period'). The financial statements are presented in Australian dollars, which is Silk Logistics Holdings Limited's functional and presentation currency.

Silk Logistics Holdings Limited (the 'company') is a listed public company limited by shares incorporated and domiciled in Australia. Its registered office and principal place of business are:

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 27 February 2024.

Note 2. Material accounting policy information

Statement of compliance

These general purpose financial statements for the half-year reporting period ended 31 December 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 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 25 June 2023.

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

Going concern

The interim 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.

As at 31 December 2023, the Balance Sheet reflects a surplus of current liabilities over current assets of $25.5 million (June 2023: $20.0 million). The increase in the surplus as at 31 December 2023 principally arises due to a lower cash balance at reporting date. The cashflows related to working capital, borrowings and lease liabilities have been included in the Board approved cashflow forecast for FY24 – FY25.

The Group is required under its external debt facilities to achieve a number of financial performance covenants. The Group is forecast to remain covenant compliant based on the Board approved cashflow forecast for FY24 – FY25. The continued covenant compliance is dependent on the Group continuing to trade in line with its forecast. The directors remain focused on the Group's liquidity, and expect to manage business operations in the forecast period whilst maintaining adequate liquidity through continuing to carefully manage cash used in operations.

Based on the above factors, the Directors are of the opinion that the use of the going concern assumption is appropriate.

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 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 (transport and handling 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 assesses the appropriateness of identified reportable operating segments each reporting period. Based on the nature of business operations, the management of performance and resource allocation, and the identification of CGUs, the CODM may reorganise the reportable operating segments where it is considered appropriate.

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

Consolidated – half-year ended 31 December 2023	Port Logistics $'000	Contract Logistics $'000	Corporate^ $'000	Total $'000
Sales to external customers	175,119	101,387	–	276,506
Other income	590	90	–	680
Segment operating expenses	(152,493)	(77,000)	(917)	(230,410)
EBITDA	23,216	24,477	(917)	46,776
Depreciation and amortisation	(11,419)	(18,716)	–	(30,135)
EBIT	11,797	5,761	(917)	16,641
Net finance cost	(3,668)	(4,889)	–	(8,557)
Profit before income tax	**8,129**	**872**	**(917)**	**8,084**

^ Corporate expenses include costs related to the acquisition of the Secon Group, discontinued site and corporate restructure costs.

Consolidated – half-year ended 25 December 2022	Port Logistics $'000	Contract Logistics $'000	Corporate# $'000	Total $'000
Sales to external customers	149,962	103,673	–	253,635
Other income	534	243	–	777
Segment operating expenses	(129,502)	(80,739)	(1,061)	(211,302)
EBITDA	20,994	23,177	(1,061)	43,110
Depreciation & amortisation expense	(7,817)	(16,719)	–	(24,536)
EBIT	13,177	6,458	(1,061)	18,574
Net Finance cost	(1,606)	(3,913)	–	(5,519)
Profit before income tax	**11,571**	**2,545**	**(1,061)**	**13,055**

Corporate expenses include costs related to the acquisition of the Fremantle Freight and Storage group.

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 after 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 storage and port logistics services which are recognised over time. Once a contract has been entered into, 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	
	31 December 2023 $'000	**25 December 2022 $'000**
Port logistics	175,119	149,962
Distribution	17,700	22,654
Storage	30,126	32,502
Handling	53,561	48,517
Revenue	276,506	253,635

	Consolidated	
	31 December 2023 $'000	**25 December 2022 $'000**
Timing of revenue recognition		
Goods transferred at a point in time	71,261	71,171
Services transferred over time	205,245	182,464
	276,506	253,635

Note 5. Cash and cash equivalents

	Consolidated	
	31 December 2023 $'000	25 June 2023 $'000
Current assets		
Cash at bank and in hand	22,187	30,479

Note 6. Other current assets

	Consolidated	
	31 December 2023 $'000	25 June 2023 $'000
Current assets		
Prepayment	8,660	4,287
Accrued Income	4,090	2,698
Inventory	352	317
	13,102	7,302

Accrued income is recognised in the Port Logistics segment to account for revenue earned from the movement of shipping containers which remain unbilled to customers at period end. The services provided for the collection and movement of containers attract costs which are recognised in the period they are incurred. Revenue attributable to the services provided can be reliably measured based on agreed rates per containers. Further, accrued income includes unbilled warehousing storage costs at period end.

Note 7. Borrowings

	Consolidated	
	31 December 2023 $'000	25 June 2023 $'000
Current liabilities		
External borrowings – secured	17,195	6,750
Purchasing card facility – current	–	7,122
	17,195	13,872
Non-current liabilities		
External borrowings – non current	39,800	17,094
	56,995	30,966

The Group entered into a bilateral financing facility agreement with National Australia Bank Limited ('NAB') and Cooperative Rabobank UA (Australia Branch) ('Rabo') in May 2023.

The bilateral finance agreements consist of a $73.0 million amortising cash advance facilities, of which $58.6 million had been drawn at 31 December 2023. The balance at the end of the reporting period was $54.4 million (25 June 2023: $23.8 million). During the current period, $30.0 million was utilised for the acquisition of Secon Freight Logistics and $5.6 million was utilised for the Fremantle Freight & Storage deferred contingent consideration settlement.

The facilities have a termination date of 12 May 2026.

Fixed and floating charges are provided by the Group in respect to the financing facility.

As at 31 December 2023, $17.2 million of the external borrowings have been classified as current due to the scheduled amortising repayments due in the next 12 months. The remaining borrowings of $39.8 million have been classified as non-current at reporting date.

The financial undertakings in respect of the Group's debt facilities remain unchanged in the current period.

The NAB bilateral agreement also includes a bank guarantee facility of $25.0 million (25 June 2023: $20.0 million) which is used to provide security for certain leased premises and a revolving leasing facility. As at 31 December 2023, $19.3 million of the bank guarantee facility has been utilised (25 June 2023: $16.0 million).

The revolving lease facility limit is $4.0 million, of which $2.3 million was drawn at 31 December 2023 (25 June 2023: $0.8 million).

Current borrowings includes $2.3 million drawn on an interest-bearing progressive payment facility with a financier for the supply of specialised material handling equipment ('MHE'). On delivery of the MHE the progressive payment facility (inclusive of capitalised interest) is expected to convert to a lease facility. Refer note 11.

Note 8. Issued capital

	Consolidated			
	31 December 2023 Shares	25 June 2023 Shares	31 December 2023 $'000	25 June 2023 $'000
Ordinary shares – fully paid	81,503,187	79,000,557	79,370	74,370

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	26 June 2023	79,000,557		74,370
Shares issued for the acquisition of Secon Freight Logistics Pty Ltd	11 September 2023	2,502,630	$1.99	5,000
Balance	31 December 2023	81,503,187		79,370

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

On 26 February 2024, the Board of Directors declared a fully franked interim dividend of 2.82 cents per ordinary share, with the record date of 4 March 2024 and to be paid on 10 April 2024.

On 22 August 2023, the Board of Directors declared a fully franked final dividend for the year ended 25 June 2023 of 3.10 cents per ordinary share. The total dividend cash payment of $2.44 million was paid on 2 October 2023.

Note 10. Contingent liabilities

As at the date of this report, the Group has provided security for bank guarantees to the value of $19.3 million which have been issued by its financier to landlords of properties that the Group leases for the purpose of conducting its business. Refer to note 7.

Note 11. Commitments

In the current period the Group varied the agreement with a third-party manufacturer for the supply of specialised warehouse handling equipment to a revised value of $3.5 million (previously $10.7 million). The agreement sets out payment instalment dates over an approximate 18-24 month period which commenced from June 2023. The company has entered into a progressive payment facility agreement with an equipment financier to fund the purchase of the equipment. On delivery of the equipment for use, it is intended that the progressive payment facility will convert to a lease facility.

Note 12. Business combinations

Effective 1 September 2023 (the 'acquisition date'), the Group acquired all of the issued and outstanding equity interests of Secon Freight Logistics Pty Ltd and its underlying group (the 'acquired businesses'). Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration:	**Fair value $'000**
Cash consideration on completion	29,812
Share consideration on completion	5,000
Contingent consideration	14,844
Total fair value of consideration	**49,656**

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Cash	561
Accounts receivable	8,911
Prepayment and deposit	1,013
Inventory	35
Other assets	409
Right of use assets	52,326
Property, plant and equipment	14,889
Intangible assets	16,560
Tax liabilities	(209)
Accounts payable	(3,378)
Accrued expenses	(1,180)
Employee liabilities	(1,695)
Lease liabilities	(51,940)
Deferred tax liabilities	(3,914)
Add: Goodwill	17,268
Net identifiable assets and liabilities	**49,656**

As at 31 December 2023 the acquisition of Secon Freight Logistics has been provisionally accounted for.

Revenue and profit contribution

The Acquired Business contributed revenues of $22.6 million to the group for the period from 1 September 2023 to 31 December 2023.

If the acquisition had occurred on 1 July 2023, consolidated pro-forma revenue for the period ended 31 December 2023 would have been $34.1 million.

Goodwill reconciliation

	$'000
Opening goodwill balance, 25 June 2023	61,203
Additional goodwill recognised during the year	17,268
Net book value of goodwill as at 31 December 2023	78,471

Purchase consideration – cash outflow

	Cashflow $'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration paid	(29,812)
Balances acquired:	
– Cash	561
Net outflow of cash – investing activities	(29,251)

Acquisition-related costs

Acquisition-related costs of $0.6 million are included in administrative expenses in profit or loss and in operating cash flows in the statement of cash flows.

Payments in relation to business acquisitions completed in prior periods

The Company completed the acquisition of Fremantle Freight and Storage on 1 September 2022. In the current period the Company paid an amount to the vendors of $6.5 million comprising the net working capital adjustment of $0.9 million and earn-out consideration of $5.6 million. These amounts were recognised as liabilities in the previous financial year ended 25 June 2023.

Note 13. Events after the reporting period

No matters or circumstance has arisen since 31 December 2023 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 years.

Note 14. Earnings per share

	Consolidated	
	31 December 2023 $'000	25 December 2022 $'000
Profit after income tax attributable to the owners of Silk Logistics Holdings Limited	6,176	8,828

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	80,483,597	78,817,672
Adjustments for calculation of diluted earnings per share:		
Share options	82,393	188,429
Weighted average number of ordinary shares used in calculating diluted earnings per share	80,565,990	79,006,101

	Cents	Cents
Basic earnings per share	7.67	11.20
Diluted earnings per share	7.67	11.17

Directors' Declaration

31 December 2023

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *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 31 December 2023 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
Chair

27 February 2024

Independent Auditor's Review Report

to the members of Silk Logistics Holdings Limited

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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 31 December 2023, 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 as set out on pages 11-23.

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 31 December 2023 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.

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 31 December 2023 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

Joshua Tanchel
Partner
Chartered Accountants
Sydney, 27 February 2024

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