

7 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This ESG Report provides an annual update of the performance in sustainable development of Kerry Logistics for the year ended 31 December 2016.

The scope of this report covers major operations in the Group's integrated logistics, international freight forwarding, express delivery, supply chain solutions, industry solutions and food and beverage trading, covering more than 40 countries and spanning six continents. The report is prepared in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange in 2015.

The report has been organised into six chapters focusing on the values created for our people, our customers, our supply chain, our environment, our community and our stance in anti-corruption. Key initiatives undertaken by the respective business units are featured in their relevant chapters which we believe best demonstrate our commitments in generating sustained values for our stakeholders.



SUSTAINABILITY AND ESG REPORTING

We believe that sustainability is fundamental to the success of our business. Our philosophy is to create long-term value for our stakeholders that is in line with the sustainable and responsible growth of our business. We aspire to

be a responsible corporate citizen and we believe that transparency and accountability are important foundations for building trust with our stakeholders.

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

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We maintain an open and transparent dialogue with our stakeholders to gather their views on what ESG issues matter most. Given our operations span across a wide spectrum of industries, we deal with various types of stakeholders, including employees, customers, suppliers, shareholders, investors, the media and local communities. We engage our key stakeholders on a regular basis across various platforms, such as meetings, interviews, surveys and workshops to gauge their expectations and feedback on how we could address ESG issues in the best manner.

This ESG report serves as an important tool to address the key concerns and interests of our stakeholders. Based on the inputs of our key stakeholders, we have prioritised aspects relating to environmental discharges, use of resources, employment and labour standards, operating practices and community outreach. Key initiatives and activities are summarised in the rest of this report.

VALUE CREATED FOR OUR PEOPLE

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

RECRUITING AND RETAINING TALENTS

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

Our 12-month MT Programme aims to recruit high calibre graduates worldwide regardless of academic backgrounds. We offer comprehensive on-the-job rotation exposure to our integrated logistics, international freight forwarding and express businesses in Greater China and South and Southeast Asian countries. Since its launch, the MT Programme has recruited 179 talented individuals. Amongst them 18 have become leaders taking senior management positions.



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

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

We encourage our employees to maintain work-life balance and provide them with different kinds of support. To raise awareness of the importance of healthy living, in October 2016 we participated in the Work-Life Balance Week organised by Community Business for the eighth consecutive year. Employees are encouraged to leave on time and workout on company allowance.

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

PROMOTING HEALTH, SAFETY AND WELLBEING

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

Our extensive safety training programmes equip our employees with the adequate awareness and knowledge to carry out their jobs safely. New joiners are required to attend OHS orientation; monthly refresher training is provided to keep our employees updated with the latest OHS regulatory requirements.

DEVELOPMENT AND TRAINING

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

LABOUR STANDARDS

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

REGULATORY COMPLIANCE

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

VALUE CREATED FOR OUR CUSTOMERS

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

DRIVING SERVICE EXCELLENCE

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

We address the specific business needs of our customers by offering high-quality, cost-effective supply chain solutions which leverage on our wide range of industry experience. For example, we have been successful in offering industry-specific solutions to sectors including electronics and technology, food and beverage, fashion and lifestyle, fast-moving consumer goods, industrial and material sciences, automotive and pharmaceutical and healthcare industries. Our one-stop services range from vendor-managed inventory, cold chain management, nationwide warehousing and distribution to return management.

Our long-term relationship with customers attests to our quality and reliable services. Our dedication to service excellence is also recognised through various awards. Kerry Logistics received the "Supply Chain Asia Awards 2016: Asian 3PL of the Year" from the Supply Chain Asia Magazine for our outstanding contributions in serving the world's top brands in the field of supply chain and logistics. We are also

regarded as the "Outstanding Logistics Solution Provider" at the Quamnet Outstanding Enterprise Awards 2016 for our contribution to the logistics industry. A list of awards that we have obtained during the year has been detailed in the section headed "Awards and Citations" in this annual report.

IMPLEMENTING INNOVATION

As one of the first 3PL in Asia, Kerry Logistics has piloted seven fully automated and programmed robotic butlers at its PC³ in Hong Kong since 2015. The robotic butlers, working around the clock at four times faster than in the normal course, greatly improved fulfilment accuracy and efficiency. This creates tangible value particularly for our retail customers who are in the course of expanding their scale of e-commerce.

Additionally, KerrierVISION, a real-time internet-based solution we have developed, provides personalised support to our customers on tracking of inventory, freight, purchase order and delivery. The platform has enabled greater cost-effectiveness of our customers.

ENHANCING CUSTOMER EXPERIENCE

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

PROTECTING CUSTOMERS

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

REGULATORY COMPLIANCE

In 2016, we were not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group concerning product responsibility.

VALUE CREATED FOR OUR SUPPLY CHAIN

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

OPTIMISING COLLABORATION WITH SUPPLIERS

Kerry Logistics has a stringent supplier selection and management process in place. Prior to working with a new supplier, we conduct stringent supplier qualification assessments to ensure that they meet our standards and share our values. We remain vigilant on supply chain risks including those related to ESG through systematic performance evaluation and monitoring. This allows us to put contingency plans in place in advance to maintain high service reliability and business continuity. Performance of existing suppliers are evaluated regularly. Suppliers that failed to meet our performance will be required to take timely correction and/or corrective actions; otherwise they will be suspended from doing business with us.

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

ANTI-CORRUPTION

We operate our business with integrity, transparency and accountability. Our Global Anti-bribery Policy is well conveyed to employees through mandatory induction training. The

Board sets a standard of zero tolerance to any forms of bribery, corruption, extortion, money laundering or fraud. Malpractices are to be detected by effective monitoring and management control in place. Meanwhile, our Whistleblowing Policy enables employees and third parties to report observed and suspected misconducts, irregularities and malpractices in a confidential manner. Reported cases will be followed up in a timely manner; confirmed cases will be reported to the Audit and Compliance Committee and the management.

REGULATORY COMPLIANCE

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

VALUE CREATED FOR OUR ENVIRONMENT

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



DRIVING CONTINUOUS IMPROVEMENT

To raise awareness and identify opportunities for improvement, we have established and implemented EMS in accordance with the recognised international standards at the business unit level. For example, our operations in Hong Kong, Mainland China and Singapore have enforced the EMS accredited with the ISO14001 standard.

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

SAVING ENERGY AND MANAGING EMISSIONS

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

In Hong Kong, we own and operate a fleet of 265 trucks and over 80% of them have been replaced with more efficient models since 2014. In particular, about 190 of these trucks are Euro V and Euro VI.

We reduce GHG emissions through procuring and using energy efficient devices and installations. In 2016, we replaced all T8 fluorescent light tubes with more energy-efficient T5 models at our premises in Hong Kong, which have the higher luminous efficacy of about 100 lm/W when compared with T8 lamps 80 lm/W, thereby enabling us to reduce electricity consumption. Furthermore, our dedicated maintenance team monitors and adjusts the temperature at our cold stores to avoid unnecessary energy wastage.

At Kerry Logistics, we encourage our employees to segregate and recycle waste from operation such as paper, cardboard and plastic wrapping material.

To reduce paper consumption at office, we are migrating from traditional hard copies to electronic copies for documentation.

REDUCING WATER USE

The industry that we are in is not considered highly water-intensive. In spite of this, we strive to conserve water in our daily operations. For example, we harvest rainwater for irrigating plants at our PC³ warehouse.

INCORPORATING ECO-DESIGN IN LOGISTICS FACILITIES

We recognise that the way we operate has a direct impact on the environment and natural resources. Kerry Logistics' approach to addressing its environmental impacts is to focus on green design. Our state-of-the-art logistics facilities in Hong Kong and Singapore, namely PC³ and Kerry Tampines Logistics Centre, attained the LEED (Leadership in Energy and Environmental Design) (Gold) recognition for the eco-designs that benefit the environment. Additionally, PC³ is also the first industrial building in Hong Kong being certified with HK-BEAM (Building Environmental Assessment Method) (Gold).

REGULATORY COMPLIANCE

The Group was not aware of any other non-compliance of laws and regulations that have a significant impact on the Group relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste during 2016.

VALUE CREATED FOR OUR COMMUNITY

Kerry Logistics has committed itself to serving the community by leveraging its talents, resources and networks. Our community involvement focus in 2016 demonstrates our care towards the youth, the elderly, the underprivileged and the environment. We contributed to different charitable organisations and events and in 2016 spent 922 employee volunteering hours to create values for our communities.



For the sixth consecutive year, we are proud to be named again as a "Caring Company" by the Hong Kong Council of Social Service in recognition of our continuous community involvement and contribution.

YOUTH DEVELOPMENT

We continue to support the Kids4Kids' Sharing for a Cause campaign by providing logistics support. The campaign aims to alleviate the social challenge of "invisible poverty" in Hong Kong by collecting resources from the better-off for donations to the less fortunate.

Our future lies in the hands of the youth. We aspire to cultivate a happy reading culture and help youngsters adapt to an increasingly knowledge-driven society. Kerry Logistics has been in collaboration with three other freight companies for the second year in supporting the Noel Fund. The fund is set up to support the Reading Corner programme established by the charity Sunrise Library, which aims to help elementary schools in poverty-stricken areas of Mainland China.

SUPPORTING THE UNDERPRIVILEGED

We work to create positive impact to society by helping the less fortunate. In Taiwan, for example, we provide free cold storage and distribution services to facilitate the supply of fresh and perishable food for families in need. In Spain, we have made charitable donations to the Food Bank Foundation for the fourth year in a row, providing nutritional aid to the population facing starvation and to raise public awareness over the problem of hunger.

We are also a supporter of a number of non-profit and charitable organisations, aiming to improve the wellbeing of the underprivileged. Our involvement includes monetary support, participation in community and charitable events, and in-kind support for community events.

Community initiative	Partner	Beneficiary
Hong Kong Marathon – Corporate Challenge 2017	Hong Kong Amateur Athletic Association Limited	Hong Kong Paralympic Athletes
24th Green Power Hike	Green Power Ltd	Environmental education for next generation to learn to appreciate and cherish the nature
Community Chest Corporate Challenge 2016	Community Chest	Physically disabled and elderly
Race for Water 2016	A Drop of Life	Community of arid areas of Mainland China
Hong Kong Disneyland 10K Weekend	Hongkong International Theme Parks Limited	The Children’s Cancer Foundation
UNICEF Charity Run 2016	Hong Kong Committee for UNICEF	Children worldwide, especially in stopping mother-to-child transmission of HIV
Pedal Kart Race 2016	Association of Round Tables in HK Charitable Foundation	For the underprivileged or handicapped in society
Sharing for a Cause	Kids4Kids	Youngsters in Hong Kong, empowering them to be socially responsible and community-minded
Heep Hong Society – “Children of Dreams” Charity Dinner	Heep Hong Society	Serving children with developmental and learning problems and their families

ELDERLY CARE

Showing respect to the elderly for their past contributions to socioeconomic development is a virtue that we uphold and promote. Kerry Logistics is committed to supporting the elderly to lead healthy and happy lives. During the year, Kerry Logistics continued to organise home visits and offer volunteering services with an aim to share the festivities with the elderly living by themselves in Hong Kong. In addition, we helped clean up the homes of the elderly and prepared gifts for celebrations.

ENVIRONMENTAL CONSERVATION

We believe that a good corporate citizen should take up the responsibility of building a greener and more sustainable community. As part of our continuous efforts in raising public awareness of environmental conservation and low-carbon living, our efforts in 2016 was highlighted by our participation in the Earth Hour initiative, organised by the World Wildlife Fund (WWF). This is our fifth year supporting this initiative by switching off our major exterior lighting installations for one hour and encouraging our colleagues to turn off all non-essential lights. This initiative demonstrates our commitment to conserving the environment through promoting changes in individual behaviour.