

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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## 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 2017.

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.

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



People



Customers



Supply Chain



Anti-corruption



Community



Environment

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

### RECRUITING AND RETAINING TALENTS

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

The YEA, established in 2001, has been supporting our strategic growth by grooming high-calibre talent. The YEA is comprised of four systematic programmes which are tailored for candidates at various stages of their career development. This includes student interns, fresh graduates and management associates. In particular, the 12-month GT Programme and MT Programme are both tailored to develop fresh graduates, regardless of their academic background, into business leaders of tomorrow at Kerry Logistics. The GT Programme offers intensive development in a specific business in Hong Kong whilst the MT Programme provides rotations across different business streams with overseas exposure. Candidates are prepared to take on early responsibility and obtain in-depth knowledge and hands-on experience from our business,

as well as guidance from senior management. The candidates can gain a fast pass to our MT/GT Programmes through the 6-month Internship Programme, prior to their graduation. In 2017, a total of 9 management trainees, 29 graduate trainees and 22 interns were recruited through the YEA.

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, the Group participated in the Work-Life Balance Week organised by Community Business for the ninth 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 and pass assessments before taking on their job duty such as forklift operation. Regular refresher training is provided to keep our employees updated with the latest OHS regulatory requirements. Safety training materials are also available on the e-learning platform to facilitate learning anywhere and anytime. Campaigns such as "safety month" and forklift operation competition are organised to strengthen safety awareness and culture.

As a leading logistics service provider in Asia, Kerry Logistics puts safety as its priority. Strict regulatory compliance on goods transport, handling and warehousing are expected, managed and monitored. For instance, only designated and trained staff are assigned to handle dangerous goods. The Group also sponsors external training programmes and encourages staff to obtain relevant safety certifications.

Regular fire drills and emergency evacuation simulations are arranged to equip employees with knowledge and skills in the event of an emergency.

To support our employees' mental health, the Employee Assistance Programme provides a 24-hour counselling hotline and professional advice on the handling of work, family and personal related stress to our employees and their direct family members.

## DEVELOPMENT AND TRAINING

The Group acknowledges the importance of empowering its people through development and training. Our training programmes are designed to meet our business vision not only for developing a skilled workforce as a means to develop future leaders, but also for the benefit of society as a whole. We organise various hard and soft skill training classes 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 supplier practices and incorporate relevant requirements in their human resources policies to assist them in implementing these into 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 operations. The Group Quality Policy sets a high standard and demonstrates our commitment to service excellence. We continue to recognise and adopt advanced industry practices. Quality management systems in accordance with internationally recognised frameworks have also been established and well adopted at our major operations to uphold service quality. Our quality accreditations are listed on the Company's website.

We address the specific business needs of our customers by offering high-quality, 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. Committed to high quality services, our business around the world have achieved various certifications such as ISO9001 quality management system, and Facility Security Requirements of the Transport Asset Protection Association. 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 2017: Care & Positive Work Environment 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 Global 3PL" at the Quamnet Outstanding Enterprise Awards 2017 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

With the growth of the global e-commerce, there has been an increasing demand for more reliable, accurate and transparent delivery services. 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 us to deliver greater cost effectiveness and shipment transparency to our customers.

As part of the KerrierVISION, the ePOD and Track & Trace system provides information for several business units about the road freight by tracking the location of the trucks, the remaining time to the destination, and the remaining distance to the destination. The ePOD and Track & Trace system allows Kerry Logistics to closely monitor the status of the delivery and provide timely notification to customers in the event of any delays.

Moreover, to encourage innovation in our services, we encourage our employees to contribute creative ideas to enhance our services by giving them cash reward.

### 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.

With the development of mobile technology and increasing integration of online and offline customer experience, our express business has designed, developed and deployed an application to extend shipment tracking to mobile devices. This allows our customers to easily track shipment progress anytime and anywhere. As of the end of 2017, Kerry Express has achieved over 4,000,000 downloads.

### PROTECTING CUSTOMERS

The Group treats customer data with complete confidentiality and handles such data with due care. Our ISO27001-compliant information security management system guides our information management practices. An Information Security Management Policy is in place to prevent loss and leakage of confidential information, including customer data. The policy is well communicated to our employees 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 2017, 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 in areas such as quality, environmental management and occupational health and safety are evaluated regularly. Suppliers that fail to meet our performance are required to take timely correction and/or corrective actions; otherwise they will be suspended from doing business with us. In 2017, over 650 suppliers of our headquarters in Hong Kong have gone through our performance evaluation and over 98% of them retained acceptable or above performance.

We exert positive influence on our suppliers and work closely with them to meet our ESG standards by assisting them to understand the standards. Our suppliers are expected to adhere to our Social Responsibility Policy, which requires strong commitments to good ESG practices concerning ethical conduct, health and safety, employment and human 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 form of bribery, corruption, extortion, money laundering or fraud. Malpractices are to be detected by use of effective monitoring and management controls that are in place. Meanwhile, our Whistleblowing Policy enables employees and third parties to report observed and suspected misconducts, irregularities and malpractices in a confidential manner. Reported cases will be followed up in a timely manner; confirmed cases will be reported to the Audit and Compliance Committee and management.

### REGULATORY COMPLIANCE

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.

# Community Involvement Strategy of Kerry Logistics

Talents



Youth Development

Resources



Supporting the Underprivileged

Networks



Environmental Conservation



## VALUE CREATED FOR OUR COMMUNITY

Kerry Logistics has committed itself to serving the community by leveraging its talents, resources and networks. Our community involvement focus during the year demonstrates our care towards the youth, the underprivileged and the environment. In 2017, our headquarters in Hong Kong raised funds and contributed employee volunteering hours to support community initiatives run by different charitable organisations.

For the seventh 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

Our future lies in the hands of the youth. We support initiatives and organisations that promote the rights and well-being of the children. During the year, we raised funds for UNICEF and engaged our employees to participate in various charitable activities organised by the organisation, including the UNICEF Charity Run, Little Artists Big Dreams Drawing Competition, and the Hong Kong Disneyland Marvel 10K Weekend running race.

### SUPPORTING THE UNDERPRIVILEGED

We work to create a positive impact on society by helping those in need. We continue to support the development and education of children of migrant workers in major cities in Mainland China. We also provide free cold storage and distribution services to facilitate the supply of fresh and perishable food for families in need in Taiwan.

In June 2017, a rare flood struck Hunan Province, Mainland China, which devastated homes and businesses and displaced hundreds of families. We promptly responded by providing free logistics services for disaster relief goods and materials and forming a volunteer team to support the local government's relief efforts.

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

Community Initiative	Partner	Beneficiary
Hong Kong Marathon – Corporate Challenge 2017	Hong Kong Amateur Athletic Association Limited	Hong Kong Paralympic Athletes
25th Green Power Hike	Green Power Ltd	Environmental education for next generation to learn to appreciate and cherish the nature
Race for Water 2017	A Drop of Life	Community of arid areas of Mainland China
Hong Kong Disneyland Marvel 10K Weekend 2017	Hongkong International Theme Parks Limited	The Children's Cancer Foundation
UNICEF Charity Run 2017	Hong Kong Committee for UNICEF	Children worldwide, especially in stopping mother-to-child transmission of HIV

## ENVIRONMENTAL CONSERVATION

We believe that a good corporate citizen should take up the responsibility of building a greener and more sustainable community. In 2017, we launched “Bring Your Own Bowl” Campaign at KCC Staff Canteen in Hong Kong, to raise awareness about waste reduction and environmental protection. This initiative was intended to drive employees’ behavioural change by encouraging them to bring their own reusable containers for lunch and refuse disposable utensils.

We also became a Corporate Partner of FOOD-CO through provision of storage and delivery supports. FOOD-CO is a food donation initiative run by St. James’ Settlement to help reduce food waste and alleviate poverty by sharing surplus food.

In addition, during the year, we organised beach cleanup in Taiwan and raised funds through the “Green Power Hike” for Green Power, a Hong Kong-based NGO dedicated to supporting environmental education for the public.



## VALUE CREATED FOR OUR ENVIRONMENT

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



### DRIVING CONTINUOUS IMPROVEMENT

To raise awareness and identify opportunities for improvement, we have 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 GHG EMISSIONS

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

In Hong Kong, we own and operate a fleet of 280 commercial vehicles and over 85% (2016: 80%) of them are Euro IV or more efficient models. Among these, 41 pre-Euro IV vehicles are scheduled to be replaced in two years. In 2017, we also deployed three hybrid trucks for logistics projects, as a participant to the Pilot Green Transport Fund supported by the Environmental Protection Department of the HKSAR Government. The Fund is established to support the testing of green and innovative technologies to the local public transport sector and goods vehicles.

To cut air and GHG emissions from our logistics business, we communicate good driving practices to our drivers of in-house delivery team. These include, for example, avoiding excessive vehicle idling and driving at consistent speed. Additionally, our logistics business is piloting delivery by electric vehicles in eastern China to drive greener road freight operation.

We also reduce GHG emissions through procuring and using energy efficient devices and installations. Our headquarters maintain a Green Specification List with options of environmentally friendly equipment to guide sustainable procurement practices. Since 2009, we have been progressively replacing T8 fluorescent light tubes with more energy efficient T5 model or LED lamps to reduce energy consumption and associated GHG emissions at our warehouses. As at 31 December 2017, over 7,400 light tubes have been replaced.

Renewable energy is introduced in our operations to lower our business carbon footprint. For example, we have installed solar panels on the rooftop of our warehouses in Beijing which saves about 40,000 kWh of purchased electricity per month and avoids the associated GHG emissions.

### **RESPONSIBLE WASTE MANAGEMENT AND MATERIAL USE**

To promote responsible material use and waste management practices, we encourage our employees to reuse wooden pallets, boxes and cardboard containers as many times as possible prior to recycling. Durable logistics carts and plastic containers are preferred to avoid wasteful replacements as much as possible.

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 PC<sup>3</sup> warehouse.

### **INCORPORATING ECO-DESIGN IN LOGISTICS FACILITIES**

We recognise that the way we operate has a direct impact on the environment and natural resources. Kerry Logistics' approach to addressing its environmental impacts is to focus on green design. Our state-of-the-art logistics facilities in Hong Kong and Singapore, namely PC<sup>3</sup> and Kerry Tampines Logistics Centre, attained the LEED (Leadership in Energy and Environmental Design) (Gold) recognition for the eco-designs that benefit the environment. Additionally, PC<sup>3</sup> 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 2017.

For details about our environmental performance, please refer to the data table headed "Environmental Key Performance Indicators of the Group for the Year ended 31 December 2017" on page 30 of this annual report.

## ENVIRONMENTAL KEY PERFORMANCE INDICATORS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

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

## Environmental Data (Group)

Environmental KPIs	Unit	2017
Nitrogen Oxides (NO <sub>x</sub> ) emissions	tonne	450
Particulate Matter (PM) emissions	tonne	41
Total greenhouse gas (GHG) emissions	tonne CO <sub>2</sub> e	284,000
Scope 1 – Direct emissions and removals	tonne CO <sub>2</sub> e	200,000
Scope 2 – Energy indirect emissions	tonne CO <sub>2</sub> e	84,000
Total non-hazardous waste produced	tonne	19,000
Total energy consumption	kWh	688,186,000
Total direct energy consumption	kWh	560,933,000
Gasoline/Petrol	kWh	19,458,000
Diesel	kWh	533,958,000
Liquefied Petroleum Gas (LPG)	kWh	7,517,000
Total direct energy consumption intensity		
By revenue	kWh/Revenue (HKD'000)	18.22
Total indirect energy consumption	kWh	127,253,000
Purchased electricity	kWh	127,097,000
Towngas/Gas works gas consumption	kWh	156,000
Total indirect energy consumption intensity		
By revenue	kWh/Revenue (HKD'000)	4.13
Water consumption	m <sup>3</sup>	507,000
Water consumption intensity		
By revenue	m <sup>3</sup> /Revenue (HKD'000)	0.02
Total packaging material	tonne	8,010
Total packaging material intensity		
By revenue	tonne/Revenue (HKD billion)	260