

(Incorporated in Hong Kong with limited liability) (Stock code: 00560)

Environmental, Social and Governance Report

(2016)



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Introduction

Chu Kong Shipping Enterprises (Group) Co., Ltd. (the "Company" or "CKSG") and its subsidiaries (collectively, the "Group") vow to become responsible corporations, with an ongoing commitment to improving their businesses, while playing an active role in improving the local community environment, and participating in community activities. The Group pursues the fulfillment of corporate citizenship by promising to attain the highest ethical standards, providing a safe and healthy workplace, focusing on all aspects of the business environment, contributing resources and encouraging its employees to participate in public service programmes. We believe the enhancement of environmental protection, social responsibility and corporate governance will enable the Group to be more competitive and transparent, and to consolidate its position as a leading player in logistics and high-speed waterway passenger transportation in Guangdong, Hong Kong and Macau.

The Board of Directors of the Company believes while striving to create values, the Group should always keep corporate social responsibility in mind by integrating the concept of sustainable development into all aspects of the Group; continuing to strive for excellence in environmental protection, social responsibility and corporate governance; as well as realising and raising the sense of social responsibility through increased transparency. The Group adopts primarily the principles and codes of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules as its criteria, and in line with its own experience, with an aim to build a good environmental, social and governance structure. This report is the "Environmental, Social and Governance Report" published by the Group, covering the period from 1 January 2016 to 31 December 2016. It sets out various areas of the Group such as quality, health and safety of the work environment; staff development and training; resource utilisation and emissions; service responsibilities and community involvement. With this report, shareholders, investors and members of the public can acquire a more comprehensive and profound understanding of the governance and culture of the Group. This report serves as a channel for reviewing the effectiveness of the Group in the environmental, social and governance aspects.

In the future, the Group will disclose this report on a regular basis to inform the public of the Group's latest developments in the environmental, social and governance aspects. Members of the community are welcome to make suggestions and comments, through the Group's communication channels, on this report or the Group's environmental, social and governance work.



Keep Promoting the Green Business Concept

CKSG is encountering various environmental challenges, such as energy consumption and carbon emissions, to its business every day. Emissions from the Group's operating activities are mainly carbon dioxide, methane, nitrous oxide, etc., which are primarily generated from the vessels and vehicles engaged in transportation in our daily business operation. While pursuing ample returns for its investors, the Group does remember its role in environmental responsibility as a member of the society by improving the monitoring system for energy conservation and emission reduction, pushing further for energy conservation and emission reduction efficiency.

Emissions

CKSG places particular emphasis on the emissions and waste generated in the course of its operation. As the Group's principal businesses are cargo transportation, integrated warehousing logistics and high-speed waterway passenger transportation, the emissions are largely greenhouse gases such as carbon dioxide, methane, nitrous oxide and a small amount of household sewage during day-to-day operation. Apart from these emissions, no large amount of hazardous waste was produced and emitted to water and land. Therefore, the Group does not collect the data of this hazardous waste. The Group strictly complies with the legislation related to air pollution, such as the Law of the People's Republic of China on Environmental Protection and the Law of the People's Republic of China on the Air Pollution. It takes an active approach to carry out emission reduction, and has achieved initial results.



In 2016, the subsidiaries and terminals of the Group were fulfilling more environmental responsibilities for energy conservation and emission reduction by reducing the discharge of greenhouse gases and wastewater generated from its day-to-day operations through a number of effective initiatives. For examples, Doumen Port purchased container trailers which met the pollutant discharge standards of the People's Republic of China for motor vehicles Phase V, and it was encouraged to use most updated vessel models with lower fuel consumption to cut greenhouse gas emissions. Daily household wastewater from the terminals at Doumen Port was pre-treated by septic tanks before it was discharged into the municipal pipelines. The terminal and container yard at Sihui Port were equipped with a 75-cubic Grade-3 effluent filter tank, where all the treated sewage and household wastewater were piped into municipal sewerage pipelines for discharge. Sprinklers, vacuums and dust suppression cannon machines were used every day to remove dust at all the container yards of the terminal. More than RMB10 million was invested in construction of new gantry cranes, container rail gantry cranes and other heavy duty machinery and equipment at Gaoyao Port in 2016. The switch to electricity-driven mode from the original diesel-driven mode for these new machinery and equipment not only saved costs and improved operational efficiency, but also reduced greenhouse gas emissions. Gaoyao Port's transport capacity was also upgraded in 2016 by replacing low fuel-efficient transport vehicles with newly purchased 12 vehicles that met China's latest emission standards. The fleet of vessels managed by the Group's companies used low sulfur diesel containing sulfur content of no more than 0.05%, effectively reducing the amount of sulfide emissions in exhaust gas emissions.

In 2006, a total of 230,808,916 kg of carbon dioxide, 52,329 kg of methane and 292,124 kg of nitrous oxide were emitted. Carbon dioxide emissions were 96.901 kg/HK\$1,000 per HK\$1,000 operating income; methane emissions were 0.022 kg/HK\$1,000 per HK\$1,000 operating income; and nitrous oxide emissions were 0.122 kg/HK\$1,000 per HK\$1,000 operating income.



Resource Utilisation

In 2016, the Group was advancing a number of reform programmes to increase its resources utilisation efficiency. An electronic ticketing e-commerce platform was used across the Group to reduce the substantial use of decomposable substances such as plastic, electronic equipment and consumables, and to encourage the use of environmental-friendly paper and envelopes, striving to move towards a paperless, energy-saving and low-carbon office. Following the initial use of environmental-friendly paper for printing the annual reports for 2014, the Group continued to use environmental-friendly paper for printing the annual reports for 2015 and 2016 to put the environmental concept into practice. Various initiatives were being adopted across the Group's office to save natural resources, such as the use of double-sided paper, the adjustment of the air conditioning system to about 25 degrees and the self-awareness to turn off lights during non-office hours. The Group was gradually switching to LED fluorescent tubes at its offices, terminals, ticket offices and other offices, having saved electricity of more than 195,969 kWh in total a year, which accounted for 23.55% of the total annual electricity consumption. Moreover, transport vehicle models were upgraded at the Group's Sihui Port by giving priority to the use of fuel-efficient models. The new models consumed fuel 22% significantly less than the previous models. Chu Kong High-Speed Ferry Co., Ltd. responded positively to and supported the Government's initiatives and requirements for environmental protection by incorporating environmental work into the day-to-day operation of its fleet of vessels. The fleet had set the average fuel consumption per voyage as its quality objective to identify the best balance between the assurance of service quality and environmental-friendly operation, and successfully achieved the fuel efficiency objective and reaped the desired results. After the company's energy-saving and waste-reducing initiatives were successfully audited and certified by the Hong Kong's Environmental Campaign Committee and the Environmental Protection Department in the third quarter of 2016, the company was successful granted the Hong Kong Green Organisation Certificate at the end of the year to become a veritable green organisation. Kangzhou Port collected monthly statistics on the energy consumption indicators of its production equipment, and optimised technology, working procedures and workflow as well as allocated equipment in a reasonable manner based on the actual needs. It applied to the relevant department for suspending the use and check of production equipment with high energy consumption, and purchased equipment of small displacement, low fuel consumption and low pollution.



In 2006, 107,548 liters of petrol, 82,244,571 liters of diesel for vessels, 3,441,432 liters of diesel for vehicles, 169,142 liters of lubricants, 343,143 cubic meters of water and 8,318,850 kWh of electricity were used. Details about the resources used per HK\$1,000 operating income were as follows: 0.045 liters of petrol/\$1,000, 34.529 liters of diesel for vessels/\$1,000, 1.444 liters of diesel for vehicles/\$1,000, 0.071 liters of lubricants/\$1,000, 0.144 cubic meters of water/\$1,000 and 3.492 kWh/\$1,000.



Fig. 1: Details about the Group's utilisation of resources

Impact on Natural Resources

The natural resources used in the day-to-day operation of the Group are mainly water, electricity, office paper, diesel and petrol. The water and electricity resources in the Group's day-to-day use come from qualified water plants and power plants, which have less impact on natural resources. As the Group vigorously promotes a paperless, energy-saving and low-carbon office, employees are encouraged to use environmental-friendly paper, green envelopes and so on. The amount of paper used has significantly decreased in offices, thus this has less impact on the forest resources used to produce paper. The diesel and petrol used by the Group are purchased according to the quantity needed and are mainly used to meet the needs from day-to-day operations, and thus have little impact on natural resources such as oil.



Build a Highly Competitive Team of Employees

The Group places emphasis on staff build-up and development, being aware that the enhanced value of employees will help the Group attain its strategic objectives. The Group aims to create a platform for the Company and employees to grow together and share results, and to provide employees with skills training, career planning and development opportunities to create a quality working environment for each employee.

Employee Policy

The Group follows a people-oriented principle in various matters such as the provision of employment opportunities, remuneration, education, performance appraisal and promotion. The Group recruits people from schools and society, and through internal recommendation. Each candidate is required to pass appropriate interviews and provide a certificate of professional skills for verification.

The Group strictly complies with the relevant labour laws in Hong Kong and the Mainland. It needs to conduct a qualification check on the candidates before they are recruited to make sure no child labourers are employed by the Group or its subsidiaries. The applicable legislation includes:

"Employment Ordinance" "Law of the People's Republic of China on the Protection of Minors" "Rules on the Prohibition of the Use of Child Labourers" "Special Rules on the Labour Protection of Female Employees" "International Convention for the Safety of Life at Sea" "International Management Code for the Safe Operation of Ships and for Pollution Prevention"

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"Law of the People's Republic of China on Occupational Diseases"

"Regulations of the People's Republic of China on Seamen"



By formulating the "Employee Management Procedures" and other internal policies, the Group regulates various matters regarding its employees such as promotion and appointment, assessment and evaluation, incentives and constraints, mobility and deployment as well as leave entitlement. The Group practises the principle of equality, voluntariness and consensus, offers employees equal pay for equal work, and enters into a written employment contract with contract employees. To maintain a good composition of employees, the Group has set job qualifications and requirements for various positions in various departments as criteria for recruiting people, with an aim to providing a platform for the equal development of all employees.

Composition of Employees

The Group places emphasis on building a team of competent employees and regards it as one of its core competitive strengths. It had a composition of young and vigorous employees, in which employees aged between 25 and 35, and between 35 and 45 accounted for 62% (2015: 58%) of the total number of employees. They were an essential component of the team.



Fig. 2: Age distribution of employees in the Group



The Group's principal businesses are located in the Pearl River Delta region and its employees are primarily located in Guangdong, Hong Kong and Macau as well, where PRC employees accounted for 61% (2015: 69%) and Hong Kong employees, 35% (2015: 31%). The number of Macau and overseas employees is on the rise with the Group's aggressive efforts to expand the overseas business in recent years.



Fig. 3: Geographical distribution of employees in the Group

The Group believes the moderate mobility of employees will generate new, ongoing vitality for the Group and boost its healthy and long-term development. During the reporting period, the Group had a total of 2,689 contract employees¹ (2015: 2,658 employees¹). The number of employees increased with the Group's business development. The number of employees quitted was 254 (2015: 124 employees), a year-on-year increase, representing a turnover rate of 9.43% (2015: 8.46%) (the employees who left the Company comprised retirees). The turnover rate was slightly higher on a year-on-year basis primarily because the front-line business operators had a high turnover rate and some employees retired.

¹ The differences between 2,689 and 2,658 employees published in this report for 2016 and 2015 respectively and 2,095 and 2,105 employees published in the Group's 2016 annual report for 2016 and 2015 respectively are due to the fact that the number of employees managed by a wholly-owned subsidiary of the Group has been deleted from the Group's 2016 annual report.



Employee Training and Development

The Group respects competent people; selects and recruits them with a regulated and sound system; places emphasis on their sustainable development; and recruits outstanding, competent people from different circles in line with its operation strategy and regardless of race, sex, age, religion, region, nationality or other factors.

The Group places emphasis on employee training by engaging more audit, finance, safety and other professional skill personnel to conduct continuing education to meet the needs of employees' career development, and by encouraging qualified employees to attend training and examination in professional skills and vocational qualifications so as to encourage them to be useful in their positions. Moreover, the Group also arranges its subsidiaries to formulate appropriate training programmes based on their own actual conditions. Training programmes take various forms, covering vision building, delicacy management, sales management and so on, and are conducted in various ways such as cooperation with colleges and universities in launching training seminars, symposiums and knowledge contests. To improve the quality of internal training, experts were invited to teach on-site, which was well-received by the employees. For example, 2,167 attendees attended various training programmes of Chu Kong High-Speed Ferry Co., Ltd., a subsidiary of the Group, in 2016, such as Training for Senior Seamen, Training in Fog Navigation, ISM Training, Training in Grade 2 Licensing Examination for Chief Officers, Training in Knowledge Enhancement for Mechanicians, Workshop on Complaint Handling and Training Class for Strategic Leadership Management. The scope of training covered business training for professionals, new employee induction training and other aspects. Subsidiaries submit their training plans at the beginning of each year, and the human resources department will evaluate the training and propose improvements at the end of the year to enhance the relevance and effectiveness of the training.



During the year, the total number of trainees in the Group was 5,020 (2015: 2,378 trainees) and the number of training hours was 16,721 (2015: 4,927 hours). The average number of trainees and training hours increased significantly primarily because the Group stepped the training for professionals during the year. A comprehensive employee training and development programme had further enhanced the skills and professionalism of the Group's employees at all levels.



Fig. 4: At the Group's training venue

Quality of the Working Environment

The Group regards all of its employees as the most valuable assets. It knows very well that only employees with a positive and cheerful attitude are able to deliver quality navigation logistics and waterway passenger transportation services through their unremitting efforts and total involvement. Because of this, the Group aims to create a comfortable, healthy, safe and harmonious working environment for its employees to make sure they remain focused and involved. The Group's offices are equipped with a number of facilities such as fans and air conditioners to prevent heatstrokes and cool down the temperature. A sufficient number of sanitation facilities have been set up in the working area of the first-line terminal container yards, and interlocking bricks have been laid in the area of the yards, where vehicles are scheduled to sprinkle on a daily basis to reduce dust pollution and mud during rainy days. The Group requires employees to maintain a clean indoor and outdoor working environment and pay attention to the quality of indoor air. Air purifiers have been purchased for employees to keep the air fresh; a well-equipped rest room is available for the first-line operators and cargo handling workers, etc. , where they can take a rest during overtime or use it as a waiting place.



Occupational Health and Safety

The Group places emphasis on strengthening occupational health and safety management by taking various initiatives to ensure operation safety, and on reinforcing the training of employees in safety knowledge during operations to make sure they have clear basic knowledge of job safety and occupational health. Operating procedures and operational guidelines have been formulated as well. Moreover, subsidiaries are mandatorily required to provide necessary safety protective items needed for appropriate positions, while on-site operators must comply with the safe operation regulations. Rules have been developed for penalties against illegal operation. First-line terminal employees are provided adequate protective items such as reflective vests, helmets, dust masks, etc., to give them more protection. The Group's subsidiaries have also stepped up occupational safety and health of their employees by adopting various initiatives. For example, an occupational health system was established at Foshan Gaoming Port in strict compliance with the standards of the occupational safety and health management system, and a new safety supervision department was set up to conduct pre-job safety education and training for all employees; those employees who had regular exposure to harmful substances such as dust and harmful gases were given personal labour protective items according to the relevant regulations, of which the usage was supervised and inspected to make sure they were used regularly; the maintenance of machinery was toned up to reduce the noise caused by its abnormal operation; medicines were distributed during summer to prevent heatstrokes; and a health checkup was arranged for employees once a year. All employees at Sihui Port undergo a physical checkup once a year, receive subsidies for working during hot weather, and various departments and teams are given cold watermelons as well as cool and refreshing sweet soup.

During the reporting period, the Group recorded 14 industrial injury cases (2015: 6 cases). The industrial accidents largely took place in the Group's cargo transportation logistics business segment, and were mostly injuries due to terminal operation. During the reporting period, the Group did not have major industrial accidents.





Fig. 5: Relevant safety certificate of the Group



Fig. 6: Relevant safety certificate of the Group



Contributions to the Community

The Group understands that it can achieve the goal of "building a century-old brand and providing first-class services" only through the path towards sustainable development. Given that the environment, society and economic development are closely bound up with each other, CKSG, as a listed company, can carry out sound business operations and sustainable development only if it fulfills the Group's responsibility for the community and the environment as a member of the society. To this end, the Group has incorporated the concept of social responsibility into the Company's development strategy, strengthened risk management, initiated anti-corruption campaign and kept improving the Group's management system.

Anti-corruption

The acts of all the management members and employees of the Group are regulated under the Company's Code of Conduct for Employees to prevent illegal acts such as offer and acceptance of bribes as well as misappropriation of company's funds. Moreover, a Whistle-blowing Policy has been published with an aim to establish and maintain an environment that allows employees to report and disclose information that they believe as misconduct without having to worry about getting retaliated, and to raise the awareness among employees of maintaining internal justice of the Group, endeavoring to make sure there is no misconduct in the Group that will jeopardise the interests of shareholders, investors, customers and the public to enable the Group to be a company with a more open, responsible and honest culture. It is precisely stated in the Whistle-blowing Policy that the Group supports and encourages employees to report and disclose improper or illegal activities, and will conduct a comprehensive investigation of such reports and disclosures. The Company will also cautiously deal with any acts, such as disturbance, revenge, retaliation, threat, menace or intimidation, performed or attempted to perform against any employee who reports and discloses improper or illegal activities so as to protect such employee who came out boldly to report such activities. Moreover, an internal audit department has been set up to strengthen the in-house processes and risk management of the Group. This move has also boosted the Group's anti-corruption efforts to a certain extent.



Supply Chain Management

In engaging suppliers, the Group will set stringent screening standards, establish a complete bidding process, conduct a detailed investigation of the suppliers' background and compile a list of the appropriate qualified suppliers to make sure that the suppliers engaged by the Group are all lawful and compliant, and that they do not act against social morals.

Service Responsibility

As the Group is engaged in the service industry, it places great emphasis on the quality of the services so provided, whether they are warehousing logistics, terminal operation or high-speed waterway passenger transportation. It believes the delivery of excellent quality services to customers is the foundation for its strategic positioning which is to keep a foothold in Hong Kong, rely on the Mainland and expand globally. Based on its service philosophy of "your entrustment is our glory and responsibility", the Group places emphasis on customer feedback on the services so provided by establishing a smooth customer complaint channel and an effective improvement mechanism for optimising its services, so as to strive to get each demand and each suggestion implemented into the Group's work in future.

During the year, the Group received a total of 151 complaints, including 3 complaints against the warehousing logistics and terminal operation segments, and 148 complaints against the high-speed waterway passenger transportation segment, accounting for 0.0024% of the total passenger capacity of 6,217,000 people.

At the level of the Group's holding company, the Company has established a complete set of rules and regulations to monitor the quality of services provided by the Group's subsidiaries. The Group conducts an annual satisfaction survey according to the ISO9001: 2008 management requirement to evaluate and manage the effectiveness of the company's services.

At the level of the Group's subsidiaries, the subsidiaries engaged in the relevant business have also formulated specific rules and regulations to deal with complaints from customers, and are improving the quality of their services to provide customers with satisfactory services.



For customer complaints against the high-speed waterway passenger transportation services provided by the Group, the Group's subsidiaries have established the following customer feedback mechanism:

- 1. Reply to the passenger that we are aware of the complaint and promise to follow it up.
- 2. Refer the complaint to the relevant department for investigation.
- 3. Based on the findings of the investigation, work out a solution and reply to the passenger.
- 4. If the complaint is found to be our obvious service negligence upon completion of the investigation, causing dissatisfaction and/or substantial loss to the customer, the complaint is defined as a reasonable complaint. The company will offer the customer a settlement proposal according to the "Complaint Handling Guidelines for Settlement Proposals".
- 5. For cases that have been assessed as reasonable complaints, the departments involved are required to make corrective and preventive measures for these cases.
- 6. If necessary, the customer service department will arrange a complaint review meeting and invite the heads of the departments involved to attend it. The meeting will be chaired by the deputy general manager in charge of customer services, at which they will discuss the prominent problems in monthly customer complaints and work out solutions.

For customer complaints against the warehousing logistics and terminal operation services provided by the Group, the Group's terminals have established the following feedback mechanism:

- 1. Reply to the customer that we are aware of the complaint and promise to follow it up.
- 2. Refer the complaint to the relevant department for investigation.
- 3. Based on the findings of the investigation, work out a solution and reply to the customer.
- 4. If the complaint is found to be our obvious service negligence upon completion of the investigation, causing dissatisfaction and/or substantial loss to the customer, the complaint is defined as a reasonable complaint. We will offer the customer a settlement proposal.
- 5. The departments involved are required to make corrective and preventive measures for this complaint.
- 6. Convene a meeting of department heads to draw inferences about the relevant cases from one instance, and improve preventive measures.



Privacy Policy

The Group places great emphasis on protecting the privacy information of customers who are our stakeholders. As organised by the Group in 2016, various departments had conducted a comprehensive review of its internal work process in accordance with the six principles of protecting information under the Personal Data (Privacy) Ordinance of Hong Kong to regulate the work process and documentation in connection with handling personal information and privacy. In the future, the Group will continue to improve the review details to comply with the requirements under relevant legislation. Moreover, the Group has also evaluated the effectiveness of the services provided and the services of its business system in accordance with the legislation of Hong Kong and ISO9001: 2008, and has kept its important intellectual property rights and customer information properly, and established database for storing them by category. The Group's subsidiaries also place great emphasis on the protection of customer information and privacy in accordance with the requirements of the Group. For example, various initiatives have been adopted at Doumen Port to step up the protection of service safety and intellectual property as well as the protection and privacy of consumer information.

Affection towards Community

The Group has an ongoing, positive commitment to fulfilling its corporate social responsibility. It takes the initiative to understand the needs of the community where it has a presence, and personally fulfills and supports community development. Because of this, the Group plays an active role in dedicating itself to public service programmes in an attempt to contribute to the community. In 2016, the Group contributed a total of RMB1,000,000 (2005: RMB3,000,000). In addition to charitable donations to society, the Group is also actively involved in public service programmes, donations to schools and poverty alleviation. From time to time, the Group expresses care and condolences to needy employees by sending support to them during festivals and offering assistance to their families. The Group also strongly supports local sports events and other public service programmes by actively participating in various activities carried out in the community where it has a presence, such as tug of war, rope skipping and tree planting, to tone up its connection with the community. The Group's subsidiaries spare no effort to support the Group's social service activities as well.



Contact Us

Thank you for your kindly reading the Group's 2016 Environmental, Social and Governance Report. Your support is important motivation for the Group to make continuous progress. If you have any comments and suggestions, please feel free to contact us by the contacting information below.

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