# CSSC (Hong Kong) Shipping Company Limited
# 中國船舶(香港)航運租賃有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code : 3877

# Environmental, Social And Governance Report 2019

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# About This Report

This Environmental, Social and Governance ("ESG") Report (this "Report") covers the latest sustainability-related information of CSSC (Hong Kong) Shipping Company Limited ("CSSC Shipping" or the "Company") and its subsidiaries (collectively referred to as the "Group" or "we") in 2019, and includes issues that are of interest to stakeholders and related to the sustainable development of the Company. This Report was compiled to enable stakeholders to better understand the Company's sustainable development concept, management approaches, measures and related performance. This Report should be read in conjunction with the Company's *2019 Annual Report* (in particular the *Corporate Governance Report* contained therein) to provide a comprehensive understanding of the Company's performance.

The board of directors (the "Board') is fully responsible for the Company's environmental and social strategies and reporting, and has reviewed and approved this Report. The information disclosed in this Report is mainly derived from the internal documents and public information of the Group. The Board undertakes that there are no false records, misleading statements or material omissions in the content of this Report.

## Reporting Period

Unless otherwise specified, this Report covers the period from 1 January 2019 to 31 December 2019 (the "**Reporting Period**"). The information presented in this Report includes the Group's specific ESG policies and performance. Due to data continuity and comparability, the timeframes of some of the contents have been adjusted where necessary.

## Reporting Scope

The organizational scope of this Report is consistent with the Company's 2019 *Annual Report*, which includes CSSC Shipping and its subsidiaries.

## Basis of Report Preparation

This Report was prepared with reference to the *Environmental, Social and Governance Reporting Guide* (the "ESG Reporting Guide") contained in Appendix 27 to the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("SEHK") (the "Listing Rules"). Moreover, the selection of information for disclosure was also based on the result of the materiality assessment. This Report complies with the "comply or explain" provisions of the ESG Reporting Guide. Please refer to the Content Index of Appendix 3 in this Report for details of the corresponding sections of the provisions.

The reporting principles (of Materiality, Quantitative, Balance, and Consistency) outlined in the ESG Reporting Guide have been adopted in the Company's reporting practices.

# About This Report

## Access to This Report

This Report is available in both Chinese and English. Should there be any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

Electronic copies are available in the following websites:

- HKEX news: http://www.hkexnews.hk/
- CSSC Shipping's website: http://www.csscshipping.cn

## Response to This Report

Comments and suggestions regarding this Report and the sustainability performance of the Company are welcome, and you can contact us through the following means:
Email: ir@csscshipping.com
Phone: +852 22385299

# Chairman's Statement

Dear Shareholders,

I believe that outstanding listed companies must be leading with professionalism, capable of innovation, open for cooperation, and willing to take responsibilities. Whether in the past, present or future, CSSC Shipping is committed to pursuing and implementing such values and qualities.

Professionalism achieves excellence. Our background as a shipyard-affiliated leasing company has given us professionalism and competitiveness that are different from other leasing companies. Over the past seven years, we have relied on the solid strength and rich resources of the China State Shipbuilding Corporation Limited ("CSSC Group") to bring the latest scientific and technological achievements of China's shipbuilding industry, dispatching latest and customized ships to the market, thus providing excellent products and services to customers worldwide. In the future, we will continue to focus on ship leasing services and provide more competitive and complete system solutions for the demand side.

Innovation leads development. The increasing shipping demand has brought up a new business model and a new direction for ship leasing, which favour only those innovators. In the past seven years, we have innovatively implemented counter-cyclical investments strategies to seize development opportunities; we have actively expanded operating leases to generate profits from our assets.

Focus on clean energy development. Efforts have been made to deploy the entire clean energy industry chain and open up new strategic areas; the "Double Hundred Action" reform was systematically promoted to carry out innovation for systems and mechanisms. We are transforming development momentum at a faster pace and opening up a new blue ocean market of maritime financial services.

Cooperation cultivates opportunities. CSSC Shipping views ship leasing as a long-term business strategy, and continuously enhances its value through in-depth cooperation with all parties in the industry chain. In the past seven years, we have established good cooperative relationships with various customers and more than 20 financial institutions in 13 countries and regions around the world, and achieved many representative cooperation results. We will continue to deepen the mutually beneficial win-win cooperation with shipowners and financing banks, and actively expand cooperation to achieve common development.

Undertaking responsibilities of missions. In the past seven years, we have taken advantage of the combination of industry and financing, and created the world's first and China's first landmark projects one after another in the history of China's shipbuilding industry. We took the lead in ordering 18,000-TEU ultra-large container ships, a 174,000-square-meter floating liquefied natural gas (LNG) storage and regasification unit (FSRU), and an 85,000-cubic-meter fully-cold very large liquefied petroleum gas (LPG) carrier (VLGC) that are all designed and built in China, making a breakthrough in the technology blockade and long-term monopoly in the area of the construction of related ship types in Japan and South Korea. We have the world's first floating LNG plant conversion project (FLNG). For the Yamal LNG project along the Belt and Road, we provided the only worldwide polar class heavy-transport deck carrier that is capable of navigating the Arctic in all seasons.

# Chairman's Statement

An enterprise cannot develop without a safe environment. Since the prevalence of Coronavirus Disease (COVID-19), the world has been hugely impacted. While CSSC Shipping proactiviely fulfills its corporate social responsibilities, it also mobilizes overseas procurement channels to provide medical supplies of tight supply to epidemic areas in Mainland China and Hong Kong, including 410,000 masks, 100 kg of disinfectant, 15,000 pairs of medical rubber gloves, and 650 pieces of protective clothing and goggles. As the epidemic continues, we have also responded to our clients' needs by contacting medical supply suppliers to provide support and help to the best of our ability, jointly fighting the epidemic. At present, Hong Kong and Shanghai are still at the forefront of epidemic prevention and control. There must be no slack. All employees must start with themselves and take protective measures for themselves and those around them.

Now, the listing of CSSC Shipping provides a new platform for the world to recognize and understand the development of China's ship leasing industry, and also opens up a broader space for its corporate development. We have ushered in a new stage of development and at the same time have been given new missions and responsibilities. CSSC Shipping will take on this responsibility, recognition and trust, and live up to the trust of all by realizing its corporate value.

One day, we will ride the long wind and crest the waves. We will take the listing as a new starting point. We will remain true to our initial aspiration and keep our mission firmly in mind. We will be grateful for our returns and rely on the most open and internationalized Hong Kong market to continuously reform and innovate, and reward customers, employees and shareholders with better performance!

**Yang Li**
*Chairman*
April, 2020

# Focus of 2019

**The development of clean energy is an important fulcrum for addressing climate change and coordinating energy structure adjustment and economic transformation.**

As the start of the new round of clean energy technology revolution and the industry transformation, clean energy industry has entered a critical period of major development, major changes and major adjustments. The Group pays close attention to the development of the clean energy industry, has established a clean energy group, and has strategically deployed the offshore clean energy industry chain to help achieve the global sustainable development.

## Clean Energy-related Projects

**2014**

- The Group and Gloar, the world's leading LNG industry chain equipment operation company, signed for the world's first retrofit floating LNG production and storage unit (FLNG) construction financing and sale-leaseback project

**2016**

- The Group invested in the world's largest 85,000 cubic meter fully-cooled very large LPG carrier (VLGC) to serve China's clean energy supply
- The Group and Red Box signed two agreements for the sale and leaseback of the world's first polar class heavy-transport deck carriers, connecting Chinese shipbuilding companies with the Russian Yamal LPG project

**2017**

- The Group and Dynagas, a world-renowned LNG carrier operator, signed an agreement for two 174,000 cubic meter floating LNG storage and regasification units (LNG-FSRU) financing and leasing project. This is the first large-scale LNG-FSRU order received in the PRC

**2019**

- The Group signed a sale and leaseback agreement with the Belgian company Exmar, which will acquire a floating storage and regasification unit (FSRU) from Exmar for approximately US$155.0 million and lease it back to Exmar

As of 31 December 2019, the Group's clean energy equipment assets accounted for 42.2% of the total contract value. The Group will continue to support the development of offshore clean marine energy and build a better future for the world.

# Focus of 2019

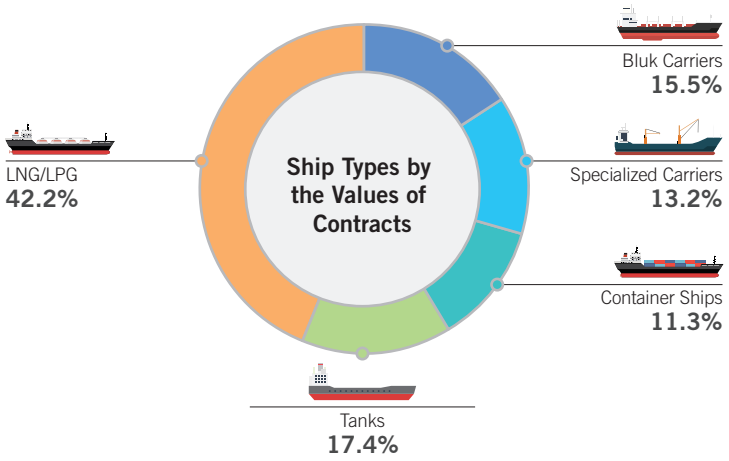
## Performance in 2019

### Economic Performance Indicators

| Revenue | New Ship Orders |
|---|---|
| HK$2.294 billion | 28 Ships |

| The Total Value of the Contracts | | Net Profit | |
|---|---|---|---|
| HK$9.893 billion | A year-on-year increase of 163% | HK$0.892 billion | A year-on-year increase of 26.0% |

### Asset Portfolio




### Credit Rating

1. Fitch International Credit Rating: A Grade

2. S&P International Credit Rating: A– Grade

To the best knowledge of the Company, as of the date of this report, the rating results are the highest ratings given to non-bank leasing companies since Fitch and S&P entered China's bond rating market.

# About CSSC Shipping

## The Company Profile

Established in 2012, the Company is the first shipyard-affiliated leasing company in Greater China* and one of the world's leading ship leasing companies. The Company offer customised and flexible ship leasing solutions that suit its customers' different needs.

The Group's core business is the provision of leasing services, which include finance lease and operating lease. Leveraging the Group's strong expertise in the marine industry, the Group's leasing services primarily focus on ship leasing. The Group also provides shipbroking and loan services to its customers.

The Group has a diversified, modern, and young vessel fleet. As of 31 December 2019, the Group's vessel fleet size reached 117 ships, of which 36 ships were under construction. Leveraging the Group's unique insights into the marine industry, the Group carefully allocates, adjusts, and optimizes the proportion of various types of vessels based on industry conditions and customers' needs.

As the sole leasing company under CSSC Group, the Company benefits from its close relationship with CSSC Group, its controlling shareholder. The Company believes that such shareholder background has distinguished the Company from its competitors and enhanced its competitiveness in the global ship leasing industry.

## Corporate Culture

CSSC Shipping focuses on creating value and driving development with innovation, and persists in the "specialized, market-oriented, and internationalized" development roadmap

| Specialized | Market-oriented | Internationalized |
|---|---|---|
| The first shipyard-affiliated leasing company under CSSC Group | With a higher financing ratio and lower financing cost, as well as market-oriented competitiveness, ship owners are assisted to renew their capacity at a lower cost for sustained operation, easing their operating pressure | Basing oneself on Hong Kong's shipping financial centre, fully utilizing the offshore funds and the overseas capital markets to serve the transformation and upgrading as well as the innovation-driven development of China's shipbuilding industry |

* *For the purpose of this report, includes the PRC, Hong Kong, Macau and Taiwan.*

# About CSSC Shipping

## Major Businesses

### Leasing Services

The Group provides tailored leasing services to its customers with the options of finance lease and operating lease.

Finance lease refers to a leasing model whereby the lessor purchases an asset according to the lessee's specific requirements and choice of supplier or whereby the lessor purchases an asset from the lessee, and then leases it to the lessee for periodic lease payments. A lease is classified as a finance lease if the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of an asset (including its residual value) to the lessee.

Operating lease refers to a leasing model whereby the lessor grants the right to use an asset to the lessee for a specified period and in return for periodic lease payments. A lease is classified as an operating lease if substantially all the risks and rewards incidental to the ownership of an asset (including its residual value) remain with the lessor.

### Shipbroking Services

Leveraging the Group's extensive network and substantial experience in the marine industry, the Group provides shipbroking services to shipyards and prospective purchasers incidental to the conduct of the Group's leasing business.

Acting as an intermediary between shipyards and prospective purchasers, the Group provides a wide range of services, including identifying market opportunities for shipyards, recommending shipyards to interested purchasers, advising interested purchasers on vessel types, specifications and capabilities, providing market information to shipyards and interested purchasers, liaising with and serving as the channel of communication between shipyards and interested purchasers, negotiating the terms of shipbuilding agreements, as well as resolving issues that arise during the execution of shipbuilding agreements.

### Loan Services

The Group's loan services mainly include pre-delivery loan, secured loan and factoring services. As part of the Group's leasing services, the Group provides pre-delivery loan services to customers who require funding to satisfy their pre-delivery payment obligations under their shipbuilding agreements. The pre-delivery loans the Group extends are solely to finance the purchase of vessels under its finance lease transactions, and are generally secured by corporate guarantee, the assignment of shipbuilding agreement and refund guarantee rendered by the Group's customers.

# Corporate Governance

The Board and the management of CSSC Shipping attach great importance to the Group's sustainable development, and continuously improve the governance mechanism to actively respond to the sustainability-related risks and to seize business opportunities from therein. The Board considers that reliable and specific environmental and social strategies and policies are essential to the Group as an enterprise in the financial industry.

During the Reporting Period, the Company has adopted the *Corporate Governance Code* and *Corporate Governance Report* (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

CSSC Shipping strictly abides by the laws and regulations in the locations of operation, requirements of regulatory authorities, its own governance policies and codes of practice. The Company operates lawfully with honesty and integrity and attaches importance to risk management and internal control. The Company also monitors the operations of its subsidiaries by implementing policies and systems to ensure their compliance with laws and regulations, consummation of business operations, and management of risks and opportunities. Through robust corporate governance, the Company ensures the compliance of business process and continues to promote its sustainable development.

During the Reporting Period, the Group held 12 board meetings. The Board reviewed and received four reports, and reviewed and approved 48 proposals, which included reports and proposals on major decisions, personnel appointments and dismissals, project arrangements, fund operation and use. The Group organized three director trainings.

The material issue – "Corporate Governance" identified in the materiality assessment is particularly addressed in this section of this Report.

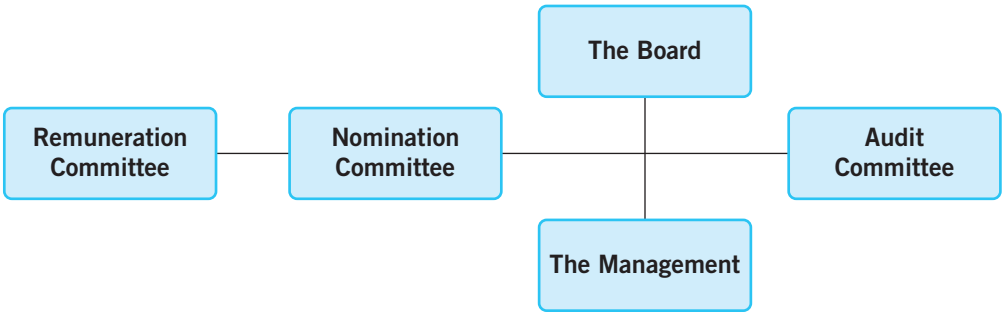
If you would like to know more about the Company's information on corporate governance, please refer to the *Corporate Governance Report in its 2019 Annual Report.*

## Corporate Structure

CSSC Shipping strictly complies with the provisions and requirements of the Listing Rules and executes its governance policies, such as the *Articles of Association* and the *Management Measures for the Board Meetings (Trial).* CSSC Shipping continuously improves its governance structure, which includes the Board, the Nomination Committee, the Audit Committee, the Remuneration Committee and the management, and relevant governance policies. Improving the level of the Company's governance and regulating the Company's operation ensures that all decisions are made on the principles of accountability and fairness and are announced in a transparent manner to protect the interests of all shareholders.

# Corporate Governance

## CSSC Shipping Governance Structure




## The Board

The Board is the operational decision-making body of the Company, accountable to the shareholders of CSSC Shipping. The management of the business of the Company shall be vested in the Board. In addition to the powers and authorities by the *Articles of Association* expressly conferred upon it, the Board may exercise all such powers and do all such acts and things as may be exercised or done by the Company that are not expressly required to be exercised or done by the Company through general meetings under the *Companies Ordinance* or the *Articles of Association*, but subject nevertheless to the provisions of the *Companies Ordinance* and the *Articles of Association* and any regulations from time to time made by the Company in general meetings.

As of 31 December 2019, the Board comprised a total of eight members, with two executive directors, three non-executive directors and three independent non-executive directors. The biographies of all directors have been published in the Company's annual report and website.

The Board has established three committees, namely the Remuneration Committee, the Nomination Committee, and the Audit Committee. They were established with specific written terms of reference which clearly set out their respective authorities and responsibilities. Details can be found in the Terms of Reference uploaded to the HKEXnews website.

## Remuneration Committee

The Remuneration Committee's duties include, but are not limited to:

- To make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy
- To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives
- To make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment

## Nomination Committee

The Nomination Committee's duties include, but are not limited to:

- To review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy
- To identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships
- To assess the independence of the independent non-executive Directors

## Audit Committee

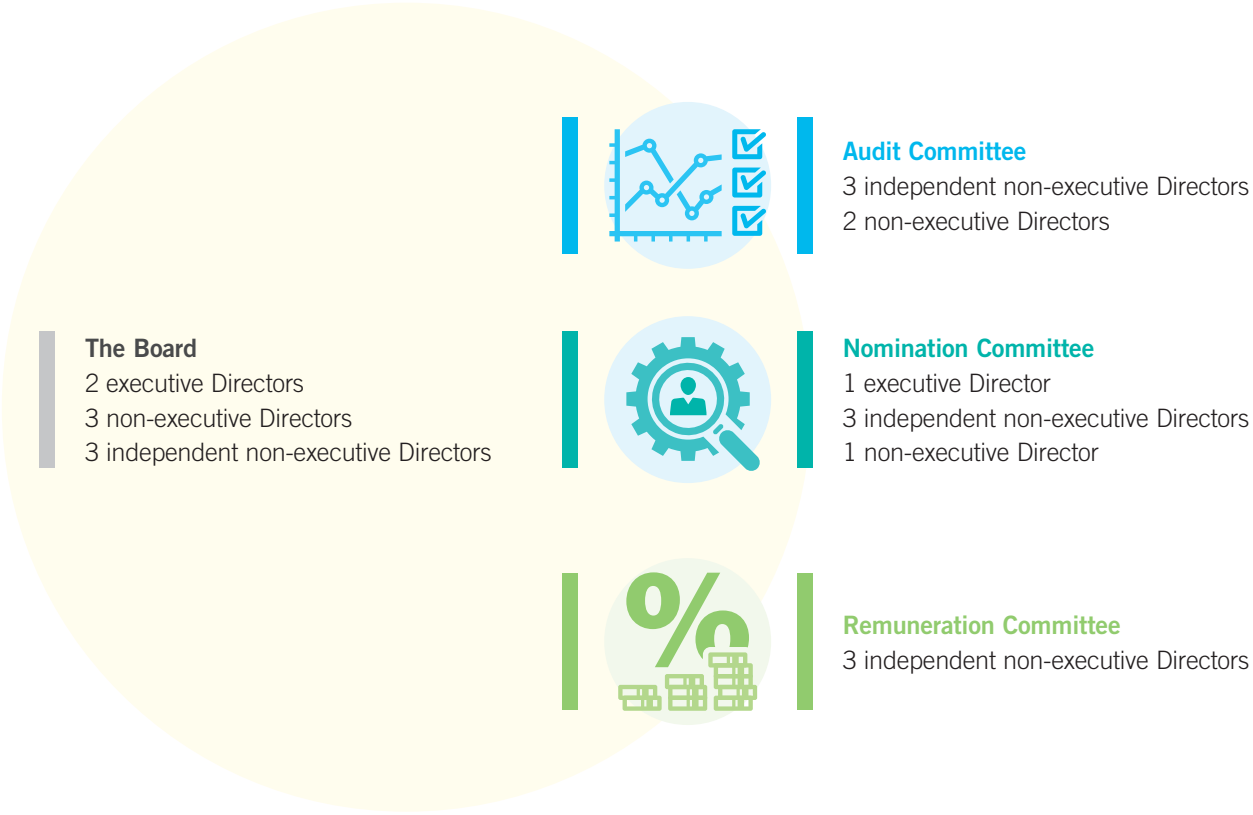
The Audit Committee's duties include, but are not limited to:

- To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal
- To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards
- To discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; where more than one audit firm is engaged, ensure coordination between them

Concurrently, the Audit committee assists the Board in maintaining the Group's risk management.

# Corporate Governance

### The Composition of the Committees




## Risk Management

Since its establishment, CSSC Shipping has attached great importance to risk management and internal control. The Board clearly recognizes its responsibility to establish and maintain risk management and internal control corresponding to the strategic objectives and in line with the actual needs of the Group.

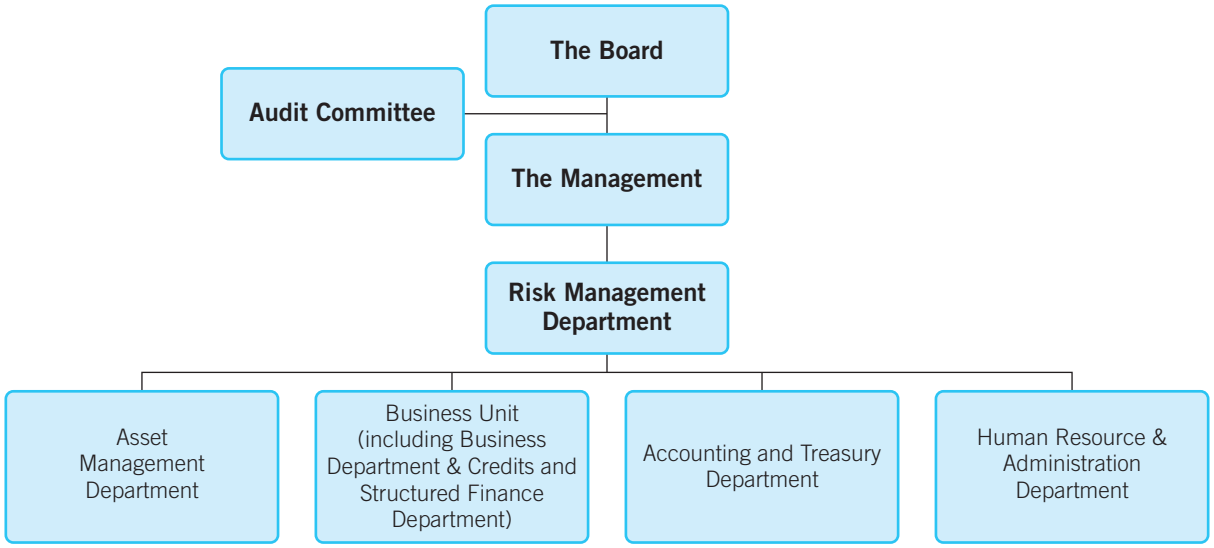
The Chairman and the General Manager of the Company bear the main responsibility for the effectiveness of the Group's risk management, while the Management of the Company undertakes corresponding responsibility for the risk management of its business.

During the Reporting Period, for the sake of compliance with the principles of comprehensiveness, independence, and prudence during operation, the Group executed the *Comprehensive Management Measures for Risk (Trial)* to accurately identify, prudently evaluate, dynamically monitor, timely respond to, and extensively manage the risks faced by the Group during operation.

# Corporate Governance

## Risk Management Structure

CSSC Shipping has established a risk management structure covering the Board and different departments, of which the Risk Management Department is the core department with risk management function in the Group.




| | |
|---|---|
| The Board | • Bearing the ultimate responsibility for risk management<br>• Responsible for the goals and strategies for audit-related risk management<br>• Monitoring the implementation of risk management policies and assessment of overall risk |
| Audit Committee | • Responsible for monitoring the implementation of internal control procedures<br>• Reviewing financial information and assessing financial condition<br>• Overseeing the internal audit functions<br>• Providing independent advices to the Board on financial reporting, risk management and internal control |
| The Management | • Responsible for implementing risk management strategies and policies<br>• Supervising daily risk management operations and monitoring the fulfillment of the duties of the Risk Management Department |

| | |
|---|---|
| Risk Management Department | • Implementing comprehensive risk management procedures and establishing a business risk management control and compliance management system<br>• Cooperating with other functional departments to develop financing business and relevant guidelines<br>• Formulating management measures and implementation rules related to the project review and business contract management of the Group<br>• Analyzing and evaluating major risks of specific projects and proposing risk prevention measures<br>• Following up on the implementation of projects after leases and loans, and regularly reporting the overall status of business risks to the Management<br>• Developing relevant systems for handling major risk events and emergencies |

## ESG Management

The environmental and social impacts of the enterprises in the course of business have been widely concerned by various sectors of the community. Therefore, the Company also actively promotes the management of environmental and social impacts. In recent years, we have paid great attention to the focuses of investors, and have taken into account the risks and opportunities brought by environmental and social issues, actively managing their impacts, and further establishing an ESG long-term management mechanism.

The Group recognizes that a sound ESG management mechanism is conducive to stable development, so we actively explore the expectations of stakeholders and attach great importance to the establishment of an ESG management mechanism. The Group incorporates ESG principles into the consideration of business operations and decision-making to enhance its positive contribution to the environment and society. It also helps sustain economic development, facilitate the realization of the Group's goals and strategies, and meet the expectations of various stakeholders.

The Group has formulated and implemented the *Environmental, Social and Corporate Governance (ESG) Policy* and established an overarching ESG governance mechanism to ensure that the Group fully recognizes ESG risks and opportunities in its operation, management and decision-making processes, and exercises its rights and responsibilities in line with business-related ESG principles. The policy applies to all employees, customers, partners, suppliers and affiliates with the Group. The Board's Office is responsible for updating the *Environmental, Social and Corporate Governance (ESG) Policy*, and works with the Human Resources and Administration Department to ensure the implementation of the policy.

# Corporate Governance

| | |
|---|---|
| **Decision-making Level** | The Board and the Management |
| | • ESG policy is reviewed and overseen by the Board<br>• Responsible for ensuring that ESG risks are fully considered in daily operations and management<br>• Incorporating ESG principles into the overall strategy through decision-making processes |
| **Execution Level** | The Departments |
| | • Responsible for determining the departments' own ESG performance<br>• Setting corresponding performance indicators for management<br>• Improving the departments' own ESG management<br>• Timely reporting to the Management and the Board |

The Group has established fundamental ESG principles for the management and decision-making processes in the three major areas: environmental, social and governance, which are used to standardize the Group's business operations and decision-making processes. The Group requires all units to abide by relevant laws and regulations, to maintain high-standard corporate governance mechanisms, to fully consider the impact of business activities and the full life cycle of business development, and to protect the interests of all stakeholders of the Group. Details of environmental and social principles are disclosed in relevant sections.

# Corporate Governance

## Governance principles for operation, management and decision-making processes

- Strictly complying with national laws and regulations and governance policies in the production and operating locations;
- Achieving high-standard corporate governance mechanisms, upholding integrity, openness, and transparency in daily management and business development, strengthening corporate social responsibility, and ensuring compliance with laws and regulations;
- Complying with all applicable requirements in the *Corporate Governance Code* contained in Appendix 14 to the Listing Rules;
- Requiring all units to follow the high standards of ethics generally accepted by the society when dealing with other employees, customers, suppliers, regulators, etc.;
- Improving the corporate legal person governance structure and balancing powers and responsibilities between different organizations through control mechanisms;
- Ensuring that the information disclosed is true, clear and effective, so that shareholders and the public can independently and comprehensively evaluate the Company's situation and make investment decisions;
- Maintaining effective communication with shareholders and continuously improving the shareholder communication policies of the Company;
- Continuously improving the Company's governance framework, and strictly complying with applicable laws and regulations and corresponding rules;
- Continuously reviewing and monitoring to ensure compliance with the disclosure obligations under the Listing Rules, and continuously reviewing the legality and effectiveness of the disclosure process.

## Stakeholder Engagement

CSSC Shipping attaches great importance to the expectations of its stakeholders, and communicates in a full and frank manner with its major stakeholders to understand the environmental, social and governance issues they are most concerned about in order to maintain a good relationship with them. As the Group's business deals with different aspects, the Group engages with different types of stakeholders, including shareholders, business partners, customers, investors, governments and regulators, the public, employees, suppliers, and the media. The Group regularly communicates with major stakeholders through various channels to understand and respond to their comments and requests.

| Stakeholder Types | Major Stakeholders | Reasons for Engagement |
|---|---|---|
| Shareholders/ Investors | Major controlling shareholders<br>Public investors | The Group clarifies with major shareholders its determination to pursue long-term financial return and reports its sustainable development. The Group also cooperates with its major shareholders to develop business.<br><br>The Group addresses investors' concerns over sustainable development and clarifies with them its determination to pursue long-term financial return. |
| Business Partners | Intermediaries<br>Classification Societies<br>Professional ship asset management companies<br>Institutes<br>Colleges | The Group is committed to maintaining good cooperative relationships with its partners, actively communicating with them and listening to their opinions.<br><br>As the Group often needs to engage different business partners at different stages of its business, the Group maintains good communication with them to ensure a smooth progress and completion of the business. |
| Customers | Ship operators<br>Trading companies | The Group is concerned with the needs of customers and is committed to maintaining close communication with them in order meet their needs.<br><br>Contemporaneously, as the average term of lease agreements with customers is generally long in the business, the Group attaches great importance to long-term communication with customers to ensure that both parties fulfil their responsibilities and protect the rights and interests of both parties. |

| Stakeholder Types | Major Stakeholders | Reasons for Engagement |
|---|---|---|
| Governments and Regulators | Governments<br>Industry regulators | The requirements of laws, regulations, policies, and rules directly affect the business of the Group. The Group needs to maintain close contact with government departments and regulators to ensure that the Group thoroughly understands relevant policies, laws and regulations. |
| The Public | Surrounding communities<br>Community organizations<br>Non-profit organizations | The Group believes that understanding the situation of the communities in which we operate is the cornerstone of our long-term operations. |
| Employees | All Employees | The Group believes that it is important for us to understand the sustainability issues that employees are concerned about, especially with regard to labour issues, to ensure overall employee satisfaction. |
| Suppliers | Shipyards | Due to the needs of the Group's operating leasing business, the Group has entered into shipbuilding agreements with the shipyards selected by the Group for the construction of ships, taking into account the types, specifications, carrying capacity, and other requirements of the customers' proposed vessels to be leased. |
| Media | The press | The general public knows us mainly through media coverage, so we must ensure that our media partners access the right information on our sustainability performance. |

# Corporate Governance

The Group continuously improves the effectiveness of communication by continuously improving the communication mechanism with stakeholders. The channels of communication between the Group and its stakeholders are summarized as follows:

| Stakeholder Types | Channels | Matters of Concern | The Group's responses |
|---|---|---|---|
| Shareholders/Investors | • Annual general meeting<br>• Board meeting<br>• Meetings of the Board's Committees<br>• Financial result reporting<br>• Communication with other investors | • Good business performance<br>• Good corporate governance<br>• Risk control and integrity<br>• The Company's strategic direction<br>• Sufficient disclosure | • Improving corporate governance<br>• Corporate strategy meeting investors' expectations<br>• True and sufficient Disclosure |
| Business Partners | • Negotiation of contract terms<br>• Daily communication between business representatives<br>• Management-level meetings | • Benefit sharing, integrity and mutual benefit<br>• Promotion and innovation of management | • Increasing profit<br>• Improving return on funds |
| Customers | • Response to customer inquiry<br>• Customer visit<br>• Telephone communication | • Financing amount<br>• Financing ratio<br>• Interest rate level | • Promoting business negotiations<br>• Ship technology contract pre-research<br>• Facilitating project implementation |
| Governments and Regulators | • Enterprise investigation<br>• Work reporting<br>• Policy/regulatory Conferences<br>• Financial result reporting | • Operating in compliance<br>• Profit/tax<br>• Serving national strategies | • Creating job opportunities<br>• Total taxes<br>• Promoting the development of the industrial chain |

| Stakeholder Types | Channels | Matters of Concern | The Group's responses |
|---|---|---|---|
| The Public | • Participating in community voluntary activities<br>• Charitable donations<br>• Signing public interest-related agreements<br>• Coordinating community events | • Charity investment<br>• Harmonious community<br>• Safety and environmental protection | • Increasing community investment<br>• Volunteer activity |
| Employees | • Face-to-face communication<br>• Seminars on democratic life<br>• Staff suggestion boxes<br>• Employee activities<br>• Vocational training | • Sound welfare<br>• Good career development<br>• Comfortable working environment | • Providing diverse employee activities<br>• Providing different kinds of professional training |
| Suppliers | • Open tender<br>• Interviews and site visits | • Win-win cooperation | • Increasing investment, being open and transparent |
| Media | • Press conferences<br>• Invitations to interviews<br>• Regular discussions | • Business and product situation<br>• Industry status | • True and sufficient disclosure |

# Materiality Assessment

CSSC Shipping conducted its first materiality assessment for its sustainability issues with the help of an independent third-party consultant. The process includes issue identification, issue ranking, survey result analysis, and issue validation. The Group's materiality matrix was then prepared in two dimensions – the "Importance to Stakeholders" and the "Importance to the Group".

## Assessment Method

The procedures and steps of the Group's materiality assessment are as follows:

### The First Step Identification of the sustainability issues related with the Group's Business

By making reference to the ESG Reporting Guide and conducting a comparative study of the concerns of peers, the Group screened a total of 16 sustainability issues related to the Group's business, and created a pool of issues applicable to the Group. Sustainability issues are mainly divided into environmental issues and social issues.

### The Second Step Prioritization of the sustainability issues

The Group invited major internal and external stakeholder groups to participate in the online survey and rank the Group's seven environmental issues and nine social issues according to their levels of materiality. The survey received a total of 65 valid responses from internal and external stakeholders. After statistical analysis of data, we examined the materiality of the Group's sustainability issues from both internal and external stakeholders, to determine the materiality of issues of all aspects to the Group. A total of seven social issues were obtained, and are displayed in a matrix diagram.

### The Third Step Validation of the materiality of sustainability issues

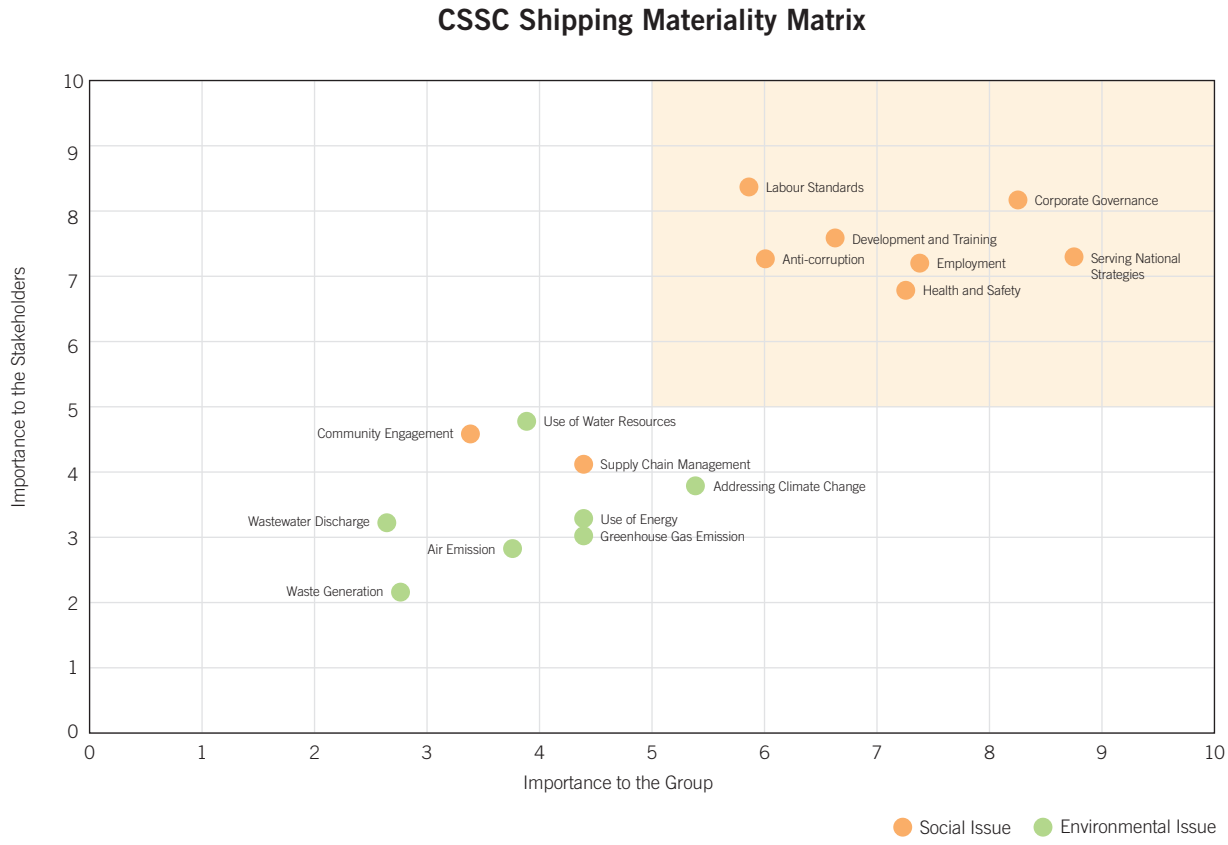
The Management of the Group confirmed the materiality of the issues identified and disclosed them in this Report in a targeted manner.

## Materiality Matrix

The Group reviewed the sustainability issues in two dimensions – the "Importance to Stakeholders" and the "Importance to the Group". The Group assumed that the opinions of all stakeholders in each dimension are of equal importance. The matrix was sorted according to the levels of materiality of the issues from low to high, and from left to right on the horizontal axis. This Report discloses in the subsequent sections relevant information of the seven social issues that are considered material by both internal and external stakeholders. The Group will disclose the work and progress made in various aspects, and will place emphasis to material issues in its long-term operations, formulate corresponding strategies, improve policies and set long-term goals.

# Materiality Assessment

**Materiality Matrix**




Sustainability Issue Prioritization:

The ranking is based on the sum of the scores in the "Importance to Stakeholders" and the "Importance to the Group" dimensions.

| | | | |
|---|---|---|---|
| 1. Corporate Governance | 2. Serving National Strategies | 3. Employment | 4. Labour Standards |
| 5. Development and Training | 6. Health and Safety | 7. Anti-corruption | 8. Addressing Climate Change |
| 9. Use of Water Resources | 10. Supply Chain Management | 11. Community Engagement | 12. Use of Energy |
| 13. Greenhouse Gas Emission | 14. Air Emission | 15. Wastewater Discharge | 16. Waste Generation |

# Materiality Assessment

## Responding to Issues

By analyzing the results of the survey, the Group identified seven material issues and disclosed these issues in detail in this Report. In the future, the Group will continue to deepen the depth and breadth of communication with stakeholders. The seven material issues identified through materiality assessment and the corresponding sections of responses are as follows:

| Aspect | Material Issues | Corresponding Response Sections |
|---|---|---|
| Social | Corporate Governance | Corporate Governance |
| | Serving National Strategies | Operation Management – Business Strategy |
| | Employment | Employee Management – Policy and Benefits |
| | Labour Standards | Employee Management – Valuing Rights, Interests and Safety |
| | Development and Training | Employee Management – Training and Development |
| | Health and Safety | Employee Management – Valuing Rights, Interests and Safety |
| | Anti-corruption | Operation Management – Compliant Operation |

# Operations Management

One of the important considerations of CSSC Shipping in sustainable development is its economic performance and the indirect economic impacts brought forth by the development process. The Group always pays close attention to the entire shipping industry, establishes strategic goals and business strategies based on its own advantages, and takes "combination of industry and finance, serving major business, innovation and development" as its corporate mission to ensure continuous value creation for various stakeholders. Concurrently, the Group upholds honesty, maintains the highest standards of market conduct, and requires all employees to comply with the Group's relevant policies and systems for business activities, strictly prevent operating risks, and adhere to business ethics. The Group continuously strengthens cooperation with stakeholders, establishes long-term mutual trust and cooperation, and jointly creates greater value.

### The Social Principles Upheld during Operations Management and Decision-Making Process

- Maintaining honest operation, fair selection of suppliers and business partners, and eliminating commercial bribery;
- Prohibiting any conduct relating to depravity, corruption, fraud during business operation;
- Protecting the interests of all stakeholders, including but not limited to employees, customers, business partners, suppliers, regulators, and society, and providing services to the aforementioned;
- Protecting the personal data and privacy of all stakeholders of the Company, including but not limited to employees, customers, business partners, suppliers, regulators, and society.

The material issues – "Serving National Strategies" and "Anti-Corruption" identified in the materiality assessment are responded in this section of this Report.

The Group strictly abides by relevant laws and regulations, and has established policies to ensure compliant operation. If you wish to know more about the relevant laws and regulations, please refer to Appendix II of this Report.

## Value Creation

At present, in the face of the complicated and changing economic situation at home and abroad, and the gradual recovery of the shipping industry, CSSC Shipping has leveraged its own business advantages to continuously broaden the development path of the enterprise, and improved its alignment with the national development strategies. In pursuance of creating value in a manner consented by various stakeholders, CSSC Shipping has also enhanced its capabilities of sustainable development as an important means to enhance its competitiveness, to effectively respond to market challenges, and to seize opportunities in the era.

In the seven years since its establishment, the Group has always relied on the CSSC Group's solid and comprehensive strength and the results of reformation and development. Under the leadership of the CSSC Group, the Group has completed the transformation from market-based operations of shipyards to ship leasing enterprises. Through exploration and development in the stages of creation, start-up, layout, development, accumulation and innovation, CSSC Shipping has become one of the world's largest non-bank ship leasing companies and one of the world's top four leasing companies holding ship assets. During the Reporting Period, the Group has obtained Fitch international credit rating "A" rating and S&P international credit rating "A-" rating, recognized by international credit rating agencies.

# Operations Management

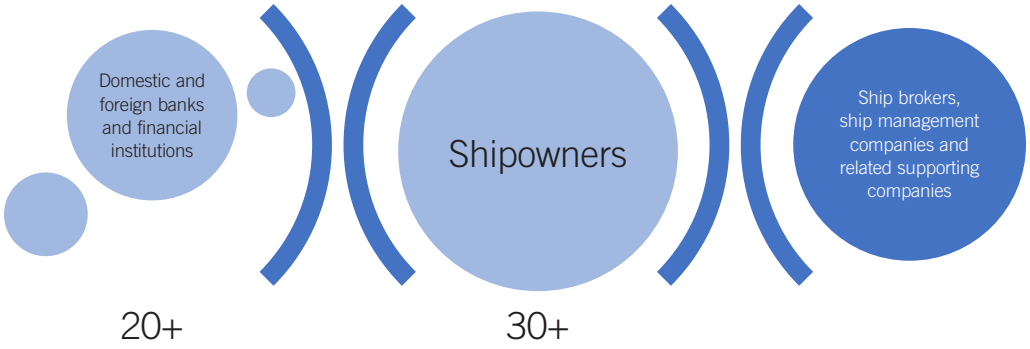
## Value Realization

**"Combination of Industry and Finance, Serving Major Business, Innovation and Development"**

| A Balancer for Business | An International Window | Creativity in New Products | Managing Good Customer Relationships |
|---|---|---|---|
| The Group adopts counter-cyclical investment strategies to create value for shareholders and investors during market downturns and the industry recovery period.<br><br>In the past few years when the ship market was sluggish, the Group's new shipbuilding orders has continued to increase, injecting new impetus to the healthy and stable development of the industry; when the market was in a period of rapid recovery and prosperity, the ship price rosed rapidly, and the ships the Group held were sold to realize assets dividend. | The Group actively explores international markets and establishes communication channels with shipowners associations and chambers of commerce in Hong Kong. Currently, more than 90% of the Group's customers are from overseas markets.<br><br>The Group also actively participates in international maritime exhibitions and maritime forums, as well as the daily maintenance of shipowners, and constantly strengthens communication with international shipowners. | The Group taps into market opportunities and leads innovation.<br><br>The Group undertook China's first clean energy ship project to enhance the competitiveness of Chinese companies in the LNG industry chain; the Group undertook a number of first container ship orders for Chinese companies, enabling them to rapidly develop the industrial chain of ultra-large container ships and regional container ships; the Group launched CSSC Group's first batch of Suezmax tankers, directly expanding its product breadth in the oil tanker market. | The Group maintains customer stickiness, increases customer coverage, and concentrates on managing customer relationships. The Group provides customers with full-cycle ship operation services through leasing services, shipbroking services, and loan services and establishes long-term and stable customer relationships.<br><br>The Group's market-oriented operation model and the transaction structure were designed to meet the differing needs of customers, and have enabled us a batch of new customers. |

# Operations Management

### Substantive Cooperation




During the Reporting Period, the Group has been in substantive cooperation with more than 20 domestic and foreign banks and financial institutions, more than 30 shipowners, and a group of ship brokers, ship management companies and related supporting companies, which resulted in substantial achievements.

## Business Strategy

CSSC Shipping faces a market environment full of opportunities and challenges. Upholding the concept of sustainable development, CSSC Shipping takes full advantages of the platform as a shipyard-affiliated leasing company, and gives full play to the synergies brought by the financial business to the ship-related industries to serve the needs of economic and social development.

### Industry Context

In 2018, in pursuance of the full implementation of the Party's major strategic deployments of "Step up Efforts to Build China into a Strong Maritime Country" as mentioned at the 19th National Congress[1], "Open up More Space for the Blue Economy", and "Implement the Belt and Road Initiative" outlined in the 13th Five-Year Plan[2] to enhance serving the real economy and to organize the optimization of financial resource, the eight ministries[3] jointly issued the *Guiding Opinions on Improving and Strengthening Financial Services for the Development of the Marine Economy*, under the premise of risk controllability and commercial sustainability, strengthening and upgrading financial services for marine economic development. New opportunities have been brought to leasing companies.

In 2019, the development of the shipping industry has gradually recovered, but it has also faced the challenges of rising trade protectionism and escalating trade frictions, which have brought many uncertainties to the development of the industry.

1 The 19th National Congress refers to the 19th National Congress of the Communist Party of China
2 The 13th Five-Year Plan refers to the Thirteenth Five-Year Plan for the National Economic and Social Development
3 The eight ministries refers to the People's Bank of China, State Oceanic Administration, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Finance, Banking Regulatory Commission, Securities Regulatory Commission, and Insurance Regulatory Commission

In addition, the formulation and implementation of the International Maritime Organization (IMO) 2020 "Sulfur Restriction Order", China's formal accession to the Ballast Water Management Convention, and the 2050 carbon emission reduction target have also profoundly impacted the development of the shipping industry.

Under various external and internal environmental pressures, ship leasing provides diversified financing channels and sufficient funding support to the shipping industry, and plays an important role in the promotion of industry transformation and the combination of industry and finance.

## Implementation of Four Strategies

***Professional Ship Leasing and Reasonable Asset Portfolio***

The Group's balanced asset portfolio includes different types of ships. Through continuous optimization of asset portfolios, hedging effects are achieved, risks are diversified, and stable performance is achieved.

As of 31 December 2019, CSSC Shipping had a fleet of 81 vessels under management, of which clean energy equipment accounted for 36.6%.

Relying on its extensive experience in the shipping industry and the customer database shared with various ship-related companies, the Group has accumulated a large number of high-quality customers' performance data during multiple rounds of the industry cycle. Based on these data, the Group actively evaluates customers' compliance risks, and strategically adjusts the combination ratio of various types of ships to achieve the maximum optimization rate based on industry conditions and customer needs.

The average ship age of the Group's ship assets is less than two years, and it is a fleet with advanced technology and complete equipment. Among them, the average remaining lease term of the Group's existing contracts is 7.9 years, which provides the Group with stable and predictable cash flow and lays a solid foundation for further development.

***Focusing on Greater China and Deploying Worldwide***

The Group has maintained long-term cooperative relationships with 13 ship-related companies around the world and has a global customer network.

As the first shipyard-affiliated leasing company in Greater China, the Group relies on synergies with ship-related companies and close business relationships to grasp the latest news on supply and demand in the maritime market and customer needs, and to seize business opportunities in a timely manner. Through close cooperation with ship-related companies, the Group has been able to deeply explore customer needs and to provide customers with professional one-stop and customized leasing services.

The Group has a leading market position, stable market ranking and global customer base in the ship leasing industry, providing ship leasing to approximately 50 customers in 13 countries and regions around the world. The Group has always maintained its strategy of in-depth development of Greater China. On the basis of its unique advantages, it has continuously expanded new markets with extensive industry experience.

# Operations Management

***Clean Strategic Implementation of Energy Industry Chain***

Following the development trend of international clean energy demand, the Group provided leasing services for the world's first retrofitted floating liquefied natural gas plant (FLNG). This equipment is a brand-new liquefied natural gas production solution and has been successfully put into operation in mid-2018.

Concurrently, the Group also actively invests in clean energy marine transportation vessels and vessels providing services for clean energy infrastructure construction. The Group's joint venture company owns and operates four very large LPG carriers. The Group believes that the demand for offshore clean energy production and logistics will grow further in the future, and it is bound to promote the development of offshore clean energy related equipment leasing business.

| World's first | World's first | Independent Investment in the Shipyard of CSSC Group | First Domestic Order |
|---|---|---|---|
| 2 polar class heavy-transport deck carriers | Received an order for a retrofitted floating LNG plant | 174,000 cubic meters LNG ship | Floating LNG storage and regasification unit |

As the Group is principally engaged in the provision of leasing and loan services, the Group faces certain risks in its business operations, including credit risk, liquidity risk, legal and compliance risk, and operational risk. In order to minimize the risks to safeguard the long-term interests of the Group, the Group has customized a comprehensive and prudent risk management system based on business characteristics, and has implemented risk management procedures at each important stage of the business process (including due diligence, project evaluation and approval, contract execution, fund release and leasing).

***Creating the Advantages of Shipping Fintech***

The Group continuously promotes the combination of leasing business and information technology, and has developed the idea of "Combination between Industry and Finance, Technology Upgrading" to open up new business areas for shipyards and ship leasing companies.

The Group has taken the lead in developing digital leasing management solutions, comprehensively using satellite data, and industry data, to establish a digital smart platform for ship leasing that integrates full-cycle management of leasing projects, full-scale monitoring of ship assets, and digital models of business decisions. The platform displays the leasing situation of the Group's existing ships in a real-time and intuitive visualization mode. It uses ship satellite positioning, satellite image recognition, intelligent algorithms, big data business intelligence analysis, and other auxiliary tools to interpret macro data, segment the supply market, provide decision foresight, and strengthen internal control.

# Operations Management

## Main Risk Management Mechanisms

The Group determines its risk appetite based on its strategic goals and risk tolerance, and establishes relevant risk indicators such as risk tolerance and risk limit based on the determined risk appetite. Relevant resources have been allocated accordingly, and it is adjusted according to the Group's strategic goals and market environment in a timely manner. The risk indicators must be approved by the Board, the Management or its authorized units, which are subsequently subdivided into different levels and arranged to each department for implementation.

## Management Procedures

CSSC Shipping has gradually established a risk management information technology system that is compatible with the complexity of the business and the risk indicator system. Advanced risk management methods and tools are continuously being introduced to ensure that transactions and business processes involving risks are timely, accurate, completely recorded and communicated within the Group. It also ensures the risks are quantified, summarized, alerted and monitored to achieve centralized management of relevant risk information.

Based on the results of risk assessment and early warning, the Group selects a response strategy corresponding to its risk appetite. In addition, the Group has gradually established a risk emergency mechanism for major risks and emergencies, put forward suggestions for risk control, and continuously improved through mechanisms such as stress testing.

# Operations Management

## Compliant Operation

CSSC Shipping's adherence to compliant operations is an important foundation for its corporate sustainable development. In order to ensure operational compliance, the Group strictly implements anti-corruption policies internally and adheres to business ethics, while abiding by all laws and regulations and listing requirements of operating locations to fulfil its corporate responsibilities. Concurrently, the Group has strengthened training for its employees to raise awareness of compliance within the Group. The Group adheres to compliant operations and continuously promotes healthy, sound and sustainable development.

The Group's business footprint spans multiple countries or regions, and in its daily operations management, we strictly comply with applicable laws and regulations related to the protection of sales and credit management, privacy and information security, as well as trademarks, patents and intellectual property. When signing a business-related contract, the parties must sign a confidentiality agreement on the protection of confidential data or proprietary information, and the disclosure of relevant data and information to any third party is strictly prohibited unless written consent is obtained from both parties.

The Group has formulated and implemented the *Management Measures for Anti-Fraud Work (Trial)* and subsidiaries have been following provisions that are applicable to their operating locations. The Group has clarified the anti-corruption related business codes, strictly regulated the daily operation and management process so as to eliminate various actions and avenues that may lead to bribery, extortion, fraud and money laundering. The Company conducts internal audits of its subsidiaries every year to ensure that their operations and the behaviour of their employees are legal and compliant. In addition, the Group has established anti-corruption reporting channels, including reporting email boxes, reporting mailboxes, etc., which its employees have been informed of. Employees at all levels and stakeholders of the Group can report corruption in real names or anonymously through the reporting channels designated by the Group.

The Group's Risk Management Department is responsible for regularly collecting reporting information, completing information registration and reporting the content of the records to the General Manager. After receiving the report, the Risk Management Department first reports it to the General Manager, and then assigns investigators to conduct investigations.

- If the report involves the Management, the Risk Management Department also reports to the Chairman.
- For real-name reports, the Risk Management Department reports the investigation to the reporters.

# Operations Management

The Group requires that employees who confirm the report or are responsible for investigating corruption cases shall not provide any department nor individual with relevant information and report content of the reporters. If relevant information of the report is needed for work, the personnel must register with the Risk Management Department for relevant inquiry of the report content and time after the approval of the General Manager. Subsequent to the completion of the corruption investigation, the report materials, investigation reports, and investigation results are filed by the Risk Management Department in accordance with the regulations of the department in a timely manner.

The Group understands the importance of publicity for the benefit of enterprises. However, the Group's current business strategy does not rely on advertising for publicity. In addition, the Group's main business is the provision of financial services and does not involve any material health and safety issues related to the services. As there is no actual product sales in the Group's direct operations, no matters related to product labelling are involved.

In addition, during the Reporting Period, the Group mainly purchased ships from shipyards. The Group actively pays attention to the environmental and social performance of shipyards. For suppliers that provide professional consulting services to the Group, such as auditing, legal, tax and other consulting services, the Group has formulated a clear tendering policy to set criteria, procedures, contracts, etc., for selecting suppliers.

# Employee Management

CSSC Shipping gradually enters a new era of strategic transformation. It considers upgrading its talent team to be a leading, fundamental and strategic task, and establishes a talent team that meets the requirements of the sustainable development strategy. The Group attaches great importance to the rights and interests of employees, and through the formulation of clear policy guidelines and the establishment of a comprehensive training mechanism, we have created a positive, fair and just working environment for employees. The Group provides comprehensive benefits, regularly reviews employee remuneration, and protects the vital interests of employees in order to attract and retain talent. The Group also continues to expand the room for employees' career development and to promote the career growth of employees, ensuring that the Group grows with its employees.

### The Social Principles Upheld during Operations Management and Decision-Making Processes

- Complying with labour laws and regulations;
- Providing workplaces that meet legal occupational safety and health standards;
- Complying with the provisions of the *Employee Handbook* on employment behaviour, employee health and safety, etc.;
- Providing equal employment opportunities and preventing discrimination against employees in all aspects such as race, religion, color, gender, physical or mental disability, age, place of birth, marital status, sexual orientation, etc.

The material issues – "Employment", "Labour Standards", "Development and Training", and "Health and Safety" identified in the materiality assessment are particularly addressed in this section of this Report.

The Group strictly abides by relevant laws and regulations, and has established policies to ensure that the Group operates in compliance. If you wish to know more about the relevant laws and regulations, please refer to Appendix II of this Report. In addition, the Group's key employee-related performance indicators are disclosed in Appendix I of this Report.

## Employment Policy

The establishment of a sound and positive policy not only protects the rights and interests of employees, but also attracts and retains talents, further enhancing the Group's competitiveness. The Group regulates its recruitment, compensation, promotion, dismissal, working hours, holidays, benefits, etc. by implementing its human resources-related policies. The Group has formulated and implemented the *Employee Handbook*, and subsidiaries have been following provisions that are applicable to their operating locations, clarifying employees' related rights and business codes.

The Group is committed to providing fair market remuneration in terms of form and value in its remuneration policy to attract, retain and motivate employees. The remuneration of the employees of the Group includes basic salaries and performance bonuses. The Group establishes its plans for eligible employees in Hong Kong under the *Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong*. In addition, employees of the Group's subsidiaries operating in Mainland China are required to participate in social security retirement plans administered by the local municipal government. These subsidiaries are required to make contributions to social security pension plans at a certain percentage of employees' respective salaries.

# Employee Management

Concurrently, the Group is committed to improving its employee performance appraisal mechanism, using the individual work performance of employees as the basis for salary and rank adjustment, motivating employees and encouraging employees to realize their own values. The Group provides diversified career development channels to enable employees to develop their strengths in suitable jobs.

The Group also develops a comprehensive and effective welfare and protection system for employees, providing statutory holidays and extra leaves, such as wedding leave, bereavement leave, family visit leave, breastfeeding leave and personal leave. In addition to sick leave, the Group provides medical insurance that meets the requirements of its business operating locations, to effectively protect the lives of employees.

**Our Welfare at a Glance**

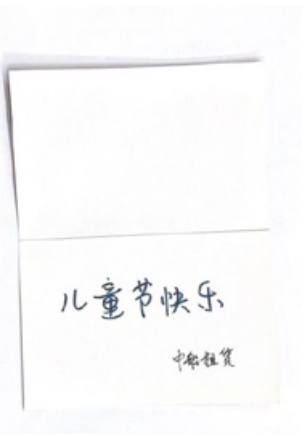
| Statutory Social Benefits | Complementary Medical Insurance | Annual Physical Examination | Leaves | Transportation Allowance |
|---|---|---|---|---|
| • Mandatory Provident Fund<br>• Social Security Pension | The Group provides group medical insurance for employees to protect their basic needs such as outpatient, inpatient surgery, and dental treatment. | The Group provides annual medical examination reimbursement for employees who have served for more than one year.<br><br>Employees enjoy a reimbursement of HK$3,000. | In addition to statutory holidays, the Group provides employees with different types of leaves to meet their needs. | The Group provides employees with transportation allowance arising from work, including applications for reimbursement of the Group's vehicles and transportation expenses. |

The Group attaches importance to employees' work-life balance, and adopts various methods to create a healthy and interactive workplace to meet the needs and expectations of employees, through the organization of various activities, to ease the work pressure of employees and thereby to enhance the cohesion and morale of employees.

During the Reporting Period, the Group arranged the following activities:

## International Children's Day

In order to promote family harmony and employee happiness, the Group issued movie tickets to employees on International Children's Day, so that employees can use their holiday time to accompany their children to watch movies.



# Employee Management

## International Women's Day on 8 March

In order to enrich the cultural life of female employees, the Group has established a "healthy, progressive, beautiful, and positive" workplace image and spiritual outlook for women, and held a "Goddess Day" event on the International Women's Day to give out greeting cards, roses, gifts, etc. Concurrently, female employees were given a half-day holiday to allow them to spend a happy and warm holiday.

## Calligraphy Study Class

The Group considers that the management needs of human resources are different among different operating locations. As the Group continues to expand its talent team, the demand for optimized multi-site management is increasing. During the Reporting Period, the Group analysed and optimized its human resources management, and redesigned its compensation and benefits system and the corresponding performance system, in an effort to bring more advanced and appropriate management systems to employees.

# Employee Management

## Valuing Rights and Ensuring Safety

CSSC Shipping bans any behaviour that ignores and violates human rights, and respects the rights and dignity of employees. In formulating policies, the Group pays full attention to the impact of these policies on employees' rights and benefits, and incorporates the principles of equal opportunity, diversity and anti-discrimination into its operations. The Group is committed to enriching the composition of its employees and building a diverse team that includes different ethnicities, educational backgrounds, work experience, nationalities, and expertise.

Strict compliance with employment-related laws and regulations and the formulation and implementation of relevant policies in accordance with the law are important cornerstones for protecting employees' rights and interests. The Group abides by the laws and regulations related to employment in each operating location, ensures that all employees enjoy their rights and receive fair and just treatment in accordance with the laws, respects the rights and interests of female employees and minority interests, and ensure employees of different nationalities, ethnicity, genders, ages, marital status, social status, are protected from infringements of their religious beliefs and privacy.

The Group has established and improved its recruitment mechanisms based on fair, equitable and diversified recruitment principles, and takes work experience, skills and professional ethics as key reference indicators. The employment contracts are signed and terminated in strict accordance with the relevant laws and regulations in each operating location to fully protect the rights and obligations of employees and the Group.

During the recruitment and hiring period, the Group actively checks the applicant's identity documents to prevent the employment of child labour. Concurrently, the Group respects employees' rights to personal freedom and rights to vacation, and clearly stipulates employees' work hours per week and absolutely prohibits forced labour.

The Group respects the democratic rights of employees and abides by the relevant laws and regulations and systems in each operating location. It is specified in the *Employee Handbook* that employees have the right to make reasonable suggestions on the management of the Group. Concurrently, employees can complain about any unfair treatment received, and can complain about any person's violations. The Group will investigate and take appropriate actions if the evidence is sufficient.

The Group regards protecting employees' safety as an important goal, and employees' health should not be affected by work. In order to ensure a healthy and safe office environment for employees, the Group regularly repairs and refurbishes its equipment. The Group mainly operates in an office environment, therefore, the Group formulates and implements safety targets management. The heads of departments are assigned as personnel responsible for safety management and to arrange regular safety inspections to fulfil relevant responsibilities. The Group's safety measures include:

- Strengthening the safety management of flammable, explosive and other dangerous goods to ensure the normal order of office areas
- The installation and use of all computer equipment must meet the Group's safety requirements; employees must strictly abide by the operating regulations; designated personnel are responsible for keeping the computer equipment
- All employees can report individual violations of the Group's safety and security systems

# Employee Management

In addition, the Group provides supplementary medical insurance and annual physical examinations to its employees, in order to keep its employees away from occupational hazards.

## Training and Development

The Group always believes that talents are the foundation and driving force for the sustainable development of enterprises, and adheres to the strategy of "strong talents for companies". In order to better improve the quality of the workforce and promote the career development of employees, the Group has formulated clear employee training and development plans, and encourages employees to participate in targeted training courses and related industry seminars to improve their related skills and ability to work and to promote their professional development.

The Group's *Employee Handbook* clearly stipulates relevant training requirements to manage the continuous development of employees. The Group clarifies that departments and employees have the right to raise training needs; the departments propose departmental training demand plans based on job needs and target planning, reports to the Human Resources & Administration Department and relevant management personnel, and executes them after obtaining approval. In addition to participating in the training arranged by the Company, training requirements can be raised according to individual needs, and implemented after approval by the department heads and the HR & Administration Department. As long as the employees receiving the training obtain relevant certification documents after the training, the Group will reimburse all trainings approved by the Group.

The training is carried out through internal training, external training, rotation training, mentor training, employee self-training, and online learning, etc., to meet the development needs of employees at different stages and to enhance their competencies.

### Training Contents at a Glance

| | |
|---|---|
| **Internal Training** | The Group arranges lecturers (external or internal lecturers) to train employees. |
| **External Training** | Based on training needs, employees are assigned to participate in externally organized training. |
| **Rotation Training** | Employees are trained across departments to accumulate and improve business skills and experience. |
| **Mentor Training** | Instructors or leaders in the departments train employees and impart business knowledge, skills and experience. |
| **Employee self-training, and Online learning** | According to the needs of the position or career development, employees learn the necessary knowledge and skills on their own. The Group also provides online learning to establish compatible, open, shared, and standardized online training courses, making good use of big data, "Internet+" and other concepts and technical means to improve the level of training management informationization. |

# Environmental Management

The Group recognizes the importance of protecting the environment. As the Group focuses on the leasing business of ships and marine equipment, its main operating activities involve clerical work and business meetings in the office, so its impacts on the environment and natural capital are limited. Nonetheless, the Group is committed to minimizing the impacts of its daily operations on the environment while maintaining effective corporate operations, and actively promotes the concepts of energy saving, emission reduction, low-carbon, and environmental protection in the office to raise employees' environmental awareness.

### The Environmental Principles Upheld during Operations Management and Decision-Making Processes

- Complying with local environment-related laws and regulations, implementing low-carbon and green office, and ensuring long-term and sustainable corporate development
- Reducing consumption of natural resources and energy
- Giving full consideration to the environmental impacts of business activities and business development throughout the life cycle, and providing corresponding solutions
- Ensuring proper disposal of wastes generated from business activities
- Improving the corporate environmental performance through providing training for employees
- Continuously monitoring and improving corporate environmental governance

The Group strictly abides by relevant laws and regulations, and established policies to ensure compliant operation. If you wish to know more about the relevant laws and regulations, please refer to Appendix II of this Report. In addition, the Group's key environmental performance indicators are disclosed in Appendix I of this Report.

## Environmental Advocacy

The Group actively promotes environmentally-friendly industrial development and product applications through its business strategy. The Group deploys the offshore clean energy industry chain, and promotes the construction of clean energy infrastructure. To ensure that emissions meet different regulations, the Group installs desulfurization equipment for ships to reduce emissions, and acquires several dual-fuel ships. If you wish to know more about the Company's business strategy, please refer to the "Focus of 2019" and the "Business Strategy" in the "Operation Management" section.

# Environmental Management

## Office Environment

The Group's employees use vehicles as needed in daily operations, which emit a limited amount of air pollutants. Compared with indirect greenhouse gas emissions from power consumption, the vehicles' emissions are relatively small. Nevertheless, the Group has formulated the *Vehicle Management Measures* to encourage employees to use public transportation when attending business meetings and commuting. In addition, due to the nature of the Group's business, in addition to electricity, another material source of indirect greenhouse gas emissions is the emissions from business travel by air. Concurrently, the Group advocates the use of video conferences and teleconferences instead of on-site meetings to reduce travel and reduce greenhouse gas emissions.

Power consumption is the main source of greenhouse gas emissions during the operation of the Group. The Group implements various measures in the offices, such as posting reminders on all electronic equipment to remind employees to turn off the power of all office equipment during non-office hours in order to reduce electricity consumption, thereby reducing greenhouse gas emissions. The Group will continue to monitor its power consumption and present annual performance changes in the future, and prepare for future environmental performance targets.

The Group does not make any sewage discharge to water and land in the course of its business.

The major non-hazardous waste generated by the Group's daily operations is office paper, while a limited number of plastic bottles are produced. In addition, the Group also produces a small amount of hazardous waste, including mercury-vapour lamps, ink cartridges and batteries. The Group encourages employees to participate in various waste reduction and recycling activities in offices, to try their best to reduce wastes at the sources, to avoid waste generation, reuse resources, and to recycle waste whenever feasible.

Regarding reducing paper consumption, the Group encourages employees to use electronic communications where possible and to save files to shared disks for circulation, and posts reminders next to the printers to remind employees to save paper and print on both sides as far as possible. The Group also sets up waste paper recycling bins in its offices, and has accumulatively recycled a total of 0.81 metric tons of waste paper during the Reporting Period. In addition to waste paper recycling, the Group has also recycled plastic bottles. During the Reporting Period, 0.03 metric tons of plastic bottles were collected. The Group returns all the used ink cartridges to the supplier for disposal, and hands over other hazardous waste to the property manager for collection and recycling.

In addition to reducing waste generation, the Group also encourages employees to develop water-saving habits to avoid wasting water resources. The Group's water sources come from the municipal supply and is under the unified control of the property management party. It has not encountered any difficulties in sourcing water that is fit for purpose.

# Community Investment Management

The development of CSSC Shipping cannot be separated from the participation and support of the communities, and the development of the communities also depends on the cooperation and assistance of the Group. The Group is willing to actively undertake its role of corporate citizen and constantly seeks ways to give back to the society. The Group is enthusiastic about social welfare, promotes community co-development, and shares the fruits of corporate development with the society.

The key community investment-related performance indicators of the Group are disclosed in Appendix I of this report.

## The Social Principles Upheld during Operations Management and Decision-Making Processes

- Supporting employees who volunteer to help the vulnerable groups in their communities

- Encouraging employees to actively participate in volunteer activities after completing their work and eliminating any form of forced labour

At the moment, the Group proactively undertakes targeted poverty alleviation work under the unified deployment arrangements of the CSSC Group, actively participating in the aid work, and jointly promoting community poverty alleviation. During the Reporting Period, the Group earnestly carried out relevant work to assist Heqing County, Yunnan Province in accordance with the *China State Shipbuilding Corporation's 2019 Targeted Poverty Alleviation Work Plan*. CSSC Group has been assisting Heqing County, Yunnan Province since 2002, and the work of poverty alleviation has entered a critical period of consolidating the effectiveness of poverty alleviation and building a well-off society. The Group has always supported CSSC Group in implementing a series of assistance projects through education, medical care, infrastructure construction, industrial development, training of cadres and skilled personnel, and employment of labour.

# Appendix 1 Performance of 2019

Social and environmental related key performance indicators of 2019:

## Social Aspect

| Key Performance Indicators | Units | 2019 |
|---|---|---|
| Employees | | |
| Number of Employees by Region | | |
| Mainland China | No. | 40 |
| Hong Kong | No. | 32 |
| Number of Employees by Gender | | |
| Female | No. | 39 |
| Male | No. | 33 |
| Number of Employees by Type | | |
| Full-time | No. | 72 |
| Part-time | No. | 0 |
| Number of Employees by Age | | |
| Below or Equal to 30 | No. | 17 |
| 31 – 40 | No. | 40 |
| 41 – 50 | No. | 11 |
| Above or Equal to 50 | No. | 4 |
| Employee Turnover | | |
| Number of Employees Turnover by Region | | |
| Mainland China | Percentage | 6.12% |
| Hong Kong | Percentage | 7.41% |
| Number of Employees Turnover by Gender | | |
| Female | Percentage | 11.63% |
| Male | Percentage | Not Applicable[4] |
| Number of Employees Turnover by Age | | |
| Below or Equal to 30 | Percentage | 15.00% |
| 31 – 40 | Percentage | 4.88% |
| 41 – 50 | Percentage | Not Applicable[5] |
| Above or Equal to 50 | Percentage | Not Applicable[6] |

4 During the Reporting Period, none of the Group's male employees resigned.
5 During the Reporting Period, none of the Group's employees aged 41-50 resigned.
6 During the Reporting Period, none of the Group's employees aged 51 or above resigned.

# Appendix 1 Performance of 2019

| Key Performance Indicators | Units | 2019 |
|---|---|---|
| Employee Training | | |
| Percentage of Trained Employees by Sex | | |
| Female | Percentage | 63.16% |
| Male | Percentage | 57.58% |
| Percentage of Trained Employees by Rank | | |
| High-level | Percentage | 100.00% |
| Mid-level | Percentage | 70.00% |
| Basic Level | Percentage | 55.36% |
| Average Training Hours by Gender | | |
| Female | Hours | 11.09 |
| Male | Hours | 16.76 |
| Average Training Hours by Rank | | |
| High-level | Hours | 78.00 |
| Mid-level | Hours | 17.10 |
| Basic Level | Hours | 7.69 |
| Anti-corruption | | |
| Number of concluded legal cases regarding corrupt practices brought against the Company or its employees | No. | 0 |
| Work Safety | | |
| Work-related Fatalities | No. | 0 |
| Lost Days Due to Work Injury | Days | 0.00 |
| Community Charity | | |
| Focus Areas of Contribution | | |
| For Poverty Alleviation | Ten Thousand HK$ | 100.00 |

# Appendix 1 Performance of 2019

## Environmental Aspect[1]

| Key Performance Indicators | Units | 2019 |
|---|---|---|
| Greenhouse Gas Emission | | |
| Total Greenhouse Gas Emission (Scope 2) | $CO_2$ equivalent metric tons | 59.60 |
| Greenhouse Gas Emission Intensity | $CO_2$ equivalent metric tons/square meter | 0.03 |
| Scope 2 | | |
| Indirect Emissions from Purchased Electricity | $CO_2$ equivalent metric tons | 59.60 |
| Scope 3 | | |
| Business Air Travel by Employees | metric tons | 131.08 |
| Hazardous Wastes | | |
| Waste Mercury-vapor Lamps | No. | 61.00 |
| Waste Batteries | No. | 373.00 |
| Non-hazardous Wastes | | |
| Office paper | Metric tons | 0.81 |
| Plastic bottles | Metric tons | 0.03 |
| Indirect Energy | | |
| Purchased Electricity | kWh | 89,669.00 |
| Purchased Electricity Intensity | kWh/square meter | 48.61 |

[1] The scope of key environmental performance indicators is the Group's offices in Shanghai and Hong Kong in 2019. In the second half of 2019, the Group added a new office in Guangzhou. The office was still in the preparation stage until the end of the Reporting Period, so it was not included in the scope. The Group will consider whether to include the Guangzhou Office in the scope in the future based on actual situation.

# Appendix 2 The List of Laws and Regulations

The laws and regulations that have a significant impact on the Group's business operations in China and Hong Kong are as follows:

| ESG Aspects | Laws and Regulations | | Compliance Status |
|---|---|---|---|
| | Hong Kong | Mainland China | |
| Environmental | *Cap.311 Air Pollution Control Ordinance*<br><br>*Cap.354 Waste Disposal Ordinance* | *Environmental Protection Law of the People's Republic of China*<br><br>*Environmental Impact Assessment Law of the People's Republic of China*<br><br>*Environmental Protection Tax Law of the People's Republic of China*<br><br>*Implementing Regulations on the Environmental. Protection Tax Law of the People's Republic of China*<br><br>*Atmospheric Pollution Prevention and Control Law of the People's Republic of China*<br><br>*Water Pollution Prevention and Control Law of the People's Republic of China*<br><br>*Solid Waste Prevention and Control Law of the People's Republic of China* | During the Reporting Period, the Group did not experience any violation of laws and regulations relating to the Group's air emissions and GHG emissions, discharges into water and land, waste generation and disposal that had a significant impact on the Group. |

# Appendix 2 The List of Laws and Regulations

| ESG Aspects | Laws and Regulations | | Compliance Status |
|---|---|---|---|
| | Hong Kong | Mainland China | |
| Employment and Labour Standards | *Cap. 57 Employment Ordinance*<br><br>*Cap. 480 Sex Discrimination Ordinance*<br><br>*Cap. 487 Disability Discrimination Ordinance*<br><br>*Cap. 602 Race Discrimination Ordinance* | *Labour Law of the People's Republic of China*<br><br>*Labour Contract Law of the People's Republic of China*<br><br>*Social Insurance Law of the People's Republic of China*<br><br>*Minors Protection Law of the People's Republic of China*<br><br>*Provisions on the Prohibition of Using Child Labour* | During the Reporting Period, the Group did not receive any information about laws and regulations that had a significant impact on the Group and are related to employment, child labour, and forced labour. |
| Health and Safety | *Cap. 509 Occupational Safety and Health Ordinance*<br><br>*Cap. 282 Employees' Compensation Ordinance* | *Occupational Diseases Prevention and Treatment Law of the People's Republic of China*<br><br>*Fire Control Law of the People's Republic of China* | During the Reporting Period, the Group did not receive any complaints about occupational health and safety that had a significant impact on the Group. |

# Appendix 2 The List of Laws and Regulations

| ESG Aspects | Laws and Regulations | | Compliance Status |
|---|---|---|---|
| | Hong Kong | Mainland China | |
| Product Responsibility | *Cap. 362 Trade Descriptions Ordinance*<br><br>*Cap. 486 Personal Data (Privacy) Ordinance*<br><br>*Cap. 559 Trade Marks Ordinance*<br><br>*Cap. 571 Securities and Futures Ordinance* | *Patent Law of the People's Republic of China*<br><br>*Trademark Law of the People's Republic of China*<br><br>*Anti-Unfair Competition Law of the People's Republic of China* | During the Reporting Period, the Group was not aware of any incidents of non-compliance with regulations and voluntary codes concerning the provision and use of the Group's products and services, which cover product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that had a significant impact on the Group. |
| Anti-corruption | *Cap. 201 Prevention of Bribery Ordinance*<br><br>*Cap. 204 Independent Commission Against Corruption Ordinance*<br><br>*Cap. 571 Securities and Futures Ordinance*<br><br>*Cap. 615 Anti-Money Laundering and Counter-Terrorist Financing Ordinance*<br><br>*Cap. 622 Companies Ordinance* | *Anti-Money Laundering Law of the People's Republic of China*<br><br>*Interim Provisions on Banning Commercial Bribery* | During the Reporting Period, the Group did not receive any relevant laws and regulations relating to the prevention of bribery, extortion, fraud, and money laundering, and did not receive any case relating to internal employees involved in bribery, extortion, and money laundering. |

# Appendix 3 Content Index

| Subject Areas, Aspects, General Disclosures and KPIs "Comply or explain" Provisions | | | Page |
|---|---|---|---|
| **A. Environmental** | | | |
| Aspect A1: Emission | General Disclosure<br><br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.<br><br>Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.<br><br>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.<br><br>Hazardous wastes are those defined by national regulations. | | p.38-39, 44 |
| | KPI A1.1 | The types of emissions and respective emissions data. | The Group's major business activities are leasing services, ship brokerage services, and loan services. No significant emissions were involved in the business process. Therefore, this indicator is not applicable. |
| | KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | p.43 |
| | KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | p.43 |
| | KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | p.43 |
| | KPI A1.5 | Description of measures to mitigate emissions and results achieved. | p.38-39 |
| | KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | p.38-39 |

# Appendix 3 Content Index

| Subject Areas, Aspects, General Disclosures and KPIs "Comply or explain" Provisions | | | Page |
|---|---|---|---|
| Aspect A2: Use of Resources | General Disclosure<br><br>Policies on the efficient use of resources, including energy, water and other raw materials.<br><br>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc | | p.38-39 |
| | KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | p.43 |
| | KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | p.39 |
| | KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | p.38-39 |
| | KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | p.39 |
| | KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced | The major business activities of the Group are leasing services, ship brokerage services and loan services. In its business process, the use of packaging materials for finished products is not involved. Therefore, this indicator is not applicable. |
| Aspect A3: The Environment and Natural Resources | General Disclosure<br><br>Policies on minimising the issuer's significant impact on the environment and natural resources. | | As the Group's business focuses on the leasing of ships and marine equipment, its main operating activities involve clerical work and business meetings in the office, and impacts on the environment and natural capital and limited. |
| | KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | |

# Appendix 3 Content Index

| Subject Areas, Aspects, General Disclosures and KPIs | "Comply or explain" Provisions | Recommended Disclosures | | Page |
|---|---|---|---|---|
| **B. Social** | | | | |
| **Employment and Labour Practices** | | | | |
| Aspect B1: Employment | General Disclosure | | | p.33-34, 36, 45 |
| | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | KPI B1.1 | Total workforce by gender, employment type, age group and geographical region. | p.41 |
| | | KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | p.41 |
| Aspect B2: Health and Safety | General Disclosure | | | p.36, 45 |
| | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to providing a safe working environment and protecting employees from occupational hazards. | KPI B2.1 | Number and rate of work-related fatalities. | p.42 |
| | | KPI B2.2 | Lost days due to work injury. | p.42 |
| | | KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | p.36 |

# Appendix 3 Content Index

| Subject Areas, Aspects, General Disclosures and KPIs | "Comply or explain" Provisions | Recommended Disclosures | | Page |
|---|---|---|---|---|
| Aspect B3: Development and Training | General Disclosure | | | p.37 |
| | Policies on improving employee knowledge and skills for discharging duties at work. Description of training activities.<br><br>Note: Training refers to vocational training. It may include internal and external courses paid by the employer. | KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | p.42 |
| | | KPI B3.2 | The average training hours completed per employee by gender and employee category | p.42 |
| Aspect B4: Labour Standards | General Disclosure<br><br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to preventing child and forced labour. | | | p.36, 45 |
| **Operating Practices** | | | | |
| Aspect B5: Supply Chain Management | General Disclosure<br><br>Policies on managing environmental and social risks of the supply chain. | | | p.32 |

# Appendix 3 Content Index

| Subject Areas, Aspects, General Disclosures and KPIs | "Comply or explain" Provisions | Recommended Disclosures | | Page |
|---|---|---|---|---|
| Aspect B6: Product Responsibility | General Disclosure | | | p.31-32, 46 |
| | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | | The Group understands the importance of publicity for the benefit of companies. However, the Group's current business strategy does not rely on advertising for publicity. In addition, the Group's main business is the provision of financial services and does not involve any health and safety issues related to the services. As there is no actual product sales in the Group's direct operations, no matters related to product labelling are involved. |
| | | KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | p.31 |

# Appendix 3 Content Index

| Subject Areas, Aspects, General Disclosures and KPIs | "Comply or explain" Provisions | Recommended Disclosures | | Page |
|---|---|---|---|---|
| Aspect B7: Anti-corruption | General Disclosure | | | p.31-32, 46 |
| | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to bribery, extortion, fraud and money laundering. | KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | p.42 |
| | | KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored | p.31-32 |
| **Community** | | | | |
| Aspect B8: Community Investment | General Disclosure | | | p.40 |
| | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | p.42 |
| | | KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | p.42 |