

# SUSTAINABILITY REPORT



## OUR APPROACH

***“As a world-leading shipbuilding company, Yangzijiang focuses on creating sustainable value for our stakeholders and the society. We seek thorough understanding in the matters that concern the stakeholders, and implement strategies throughout our operations to protect their long-term interests.”***

**Ren Yuanlin**  
Executive Chairman

## 1. GENERAL DISCLOSURE

Yangzijiang Shipbuilding Holdings Limited (or ‘the Group’) is primarily engaged in the manufacturing of commercial vessels, including containerships (1,668 TEU to 11,800 TEU), dry bulk carriers (6,500 DWT to 400,000 DWT), oil tankers and LNG carriers. Its customers are primarily ship owners in the United States, Canada, United Kingdom, Germany, France, Greece, Norway, Argentina, Turkey, Bulgaria, Poland, Australia, Japan, South Korea, Singapore, India, Thailand, Bangladesh, Mainland China, Hong Kong, Taiwan, etc.

The Group is headquartered in Jiangyin Industrial Park, Jiangyin City, Jiangsu Province, China, and has four shipyards in the vicinity. It has approximately 5,600 full-time employees.

Yangzijiang is a member of China Association of The National Shipbuilding Industry, Jiangsu Provincial Technical Innovation Association, Wuxi Overseas Investment Association, Jiangsu Shipbuilding Industry Association, Jiangsu Su-Shang Development Association, The Alliance of Ship Design System Application and Development and China Smart Shipbuilding Alliance.

## 2. VALUES AND PRINCIPLES

Innovation, efficiency, care for people

## 3. KEY MATTERS IN SUSTAINABILITY

### (1) Economic

#### Direct economic contribution

The Group has been consistently profitable over the years of its listing on the Singapore Exchange, and it



distributes about 20% – 30% of its earnings as dividends to shareholders.

As one of the biggest companies in Jiangyin City and Jiangsu Province, China, Yangzijiang Group made significant contribution to local governments through tax payment and creating employment and welfare.

#### Promote technological advancement in shipbuilding

In line with the growing popularity of fuel-efficient and lower-emission vessels in the shipbuilding market, the Group has built up R&D capabilities in green vessels.

We established a Research Institute through the acquisition of two major naval architectural firms. We invested over RMB100 million in an office building in Shanghai and dedicated it to the R&D of high tech and green vessels. Over the years, we have built up a team of over 300 professionals specializing in vessel design.

The Research Institute's diligent work on product upgrading has led to several innovative fuel-efficient models, including the 2500-TEU, 4250-TEU, and 4800-TEU containerships, the 64000-DWT, 82000-DWT, and 93000-DWT dry bulkers, and the 27,500 CBM LNG Carriers. These products were very well received by the market.

In December 2015, New Yangzi, a major yard of Yangzijiang, was granted the status of a national level R&D base for Ph.D students. This was in recognition of Yangzijiang's superb capabilities in R&D and talent development. In 2016, a laboratory at the R&D base was established and the first batch of the Ph.D students came on board. Their work is expected to further enhance Yangzijiang's R&D capabilities.

The Group has comprehensive management procedures and action plans for R&D, with specific annual targets for innovations in advanced technology for product development. In 2016 and 2017, we submitted 50 new patent applications. As of today, the Group has 347 patents, of which, 17 were innovation patents, and 330 were practice patents.

#### High-and-New Technology Enterprise

Two major yards of the Group, New Yangzi and Yangzi Xinfu, enjoy the status of High-and-New Technology Enterprise granted by the government. The status is granted based on the Group's consistent effort in enhancing its R&D capabilities, and gives the yards preferential tax rates.

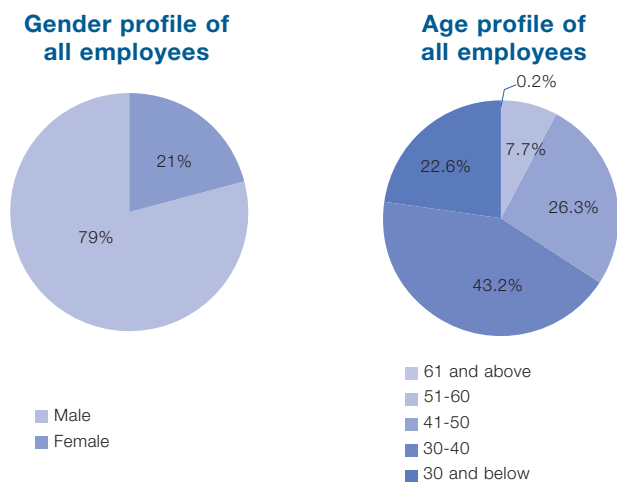
In the first list of “Top 100 most innovative enterprises in Jiangsu” released by the Jiangsu Research Institute of Development Strategy in 2016, New Yangzi was ranked No.15.

The national High-and-New Technology Enterprises status is jointly awarded by the Ministry of Science and Technology, Ministry of Finance, and the State Administration of Taxation. Eligibility criteria include R&D capability, track record in the development of intellectual property rights, use of technological innovations and improvements, and the proportion of technological personnel in the organization.

#### Employee matters

Yangzijiang’s achievements today are built on the effort of all in the Group. The Group has a comprehensive plan on human capital growth, which extends from collaborative training programs with vocational schools, manpower recruitment through M&A to continued training scheme for existing staff.

The Group is committed to gender and age equality. However, the nature of our shipbuilding business requires a higher proportion of male employees. Currently the Group’s employee profile is as follows.



The Group collaborated with vocational schools, which effectively created a talent pool, especially for technical personnel. An incentive program is in place to encourage our staff to pursue technical certificates and improve English language skills through continuous learning. We also set up various teams focusing on the training and development of fitters, welders, and engineers with overseas exposure.

We organize regular training for employees of all departments, especially for work unit heads on production sites and quality assurance staff. In 2017, each employee received 60 hours of training on average. We invite external speakers to conduct training on management procedures and organize various contests for technical staff to constantly improve their knowledge and skills.

We retain employee loyalty through a comprehensive incentive/reward scheme. A clear incentive structure gives our employees better visibility for their career



and compensation paths. This has led to a low staff turnover, reduced training costs, and improved production efficiency.

We also place a strategic focus on strengthening the educational profile of our employees that is in line with our target to enhance R&D capabilities. As of 2017, 40% of the Group’s employees had a qualification of a diploma or above, and R&D headcount accounted for 12% of our total staff strength.

#### Anti-corruption

We strictly adhere to integrity in business practice. We keep close checks on the cost structure to minimize cost in production, procurement, administration, sales and marketing. A detailed procedural guide containing meticulous rules to counter bribery and corruption is in place. It is intended to facilitate whistle blowing in relation to improper, unethical, or fraudulent conduct. All employees are informed of the policy. In 2017, there were no incidents of bribery or corruption within Yangzijiang.

#### **(2) Environmental**

Environmental protection is a key part of sustainability. It is a fact that shipbuilding business requires us to make special effort to monitor and improve material and energy efficiency and waste management, and to build and promote the use of clean-energy vessels. Yangzijiang has made significant progress in these aspects, which not only contributes to our operational and financial performance, but also positioned us as a responsible and environmental-friendly shipbuilder.

#### Operational Framework for Shipbuilding

To ensure that our vessel products are in line with the requirements of international accords, and rules and regulations on safety, environmental protection, energy efficiency and product quality, we established a comprehensive production workflow that is conducive for building green vessels. The use of TRIBON, SB3DS and other software ensures the effectiveness and efficiency of our workflow process, with performance targets for parts and components at each production phase.

Our internal environmental protection procedures take a plan-do-check-adjust (PDCA) approach, and are improved on a continuous basis. We have zero tolerance towards any waste of energy and resource.

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Our KPIs require employees to demonstrate effort in effective energy consumption and be responsible citizens in preserving the environment. Employees of all levels are encouraged to contribute ideas on the saving of raw materials and other production costs, which contributes to continuous optimization of production efficiency and cost structure. We received over 5,000 cost-saving and efficiency improvement ideas each in 2016 and 2017, which led to total savings of over RMB600 million (table below). We in turn reward employees contributing these ideas with prizes and bonuses of various forms, so as to encourage a constant flow of cost-saving innovations.

	No. of suggestions/ innovative ideas	Energy consumption/ production cost saved (RMB million)
2016	5,595	293.7
2017	5,948	331.2

By improving our infrastructure for “green shipbuilding” over the years, Yangzijiang is qualified for ISO9001 certification by the China Classification Society. Our environmental management system is ISO14001 and CSQA certified. Our quality management system has obtained BV ISO9002 and CCS ISO2000 certificates, and our vessels are CCS, ABS, BV, NK, GL, LR, DNV, and RINA certified. Regular reviews by government agencies have always found the Group compliant with national and international standards on emissions, such as wastewater, waste gas, solid waste, dust, and noise generated in production.

#### Raw material and energy consumption

The Group's stringent rules on utilities saving as well as technological breakthrough contributed to lower water, paper and electricity consumption. For example, non-production units, such as quality control, production management and cost management, are strictly only allowed to use electronic production charts which saved paper usage.

A summary of electricity and water consumption data for the past three years is as follows:

Energy consumption	Unit	2015		2016		2017	
		Total	YoY change %	Total	YoY change %	Total	YoY change %
Electricity	10,000 tons	25,717	10.6	20,866	-18.9	21,773	4.3
Of which – used for production	10,000 tons	25,075	12.1	20,248	-19.2	21,272	5.1
Water	Ton	3,512,058	29.0	3,116,465	-11.3	3,124,022	0.2
Of which – used for production	Ton	3,062,577	29.7	2,668,394	-12.9	2,748,956	3.0

The Group's utilities consumption patterns are also correlated to the level and the complexity of production and because of vessel types vary, the correlation might not be linear. Overall, we aim to contain the energy consumption to grow at a slower pace than the production growth.

### **(3) Social**

We discussed the economic matters in relation to employment above. Here we would like to discuss the social matters, namely, occupational safety and health, and social responsibility.

#### Occupational safety

In accordance with relevant national laws, regulations and industry characteristics, the Group has 35 management procedures documents in place, covering production safety and environmental protection matters. The content stipulates accountability, training, hazardous operation control and hidden issue investigation etc.. The Group also has established a set of comprehensive safety operation procedures, covering safety operation requirements for 116 posts in 15 categories.





We have a Safety Production Committee at each yard that looks after safety in production related matters, as well as environmental protection, fire safety and industrial hygiene. The committee is headed by the yard's general manager and organizes safety training on a regular basis. We have a training center with a dedicated instructor team responsible for the orientation program on safety for new employees, as well as regular training and emergency drills for existing employees. We provide all the necessary safety equipment and have rigorous rules on the enforcement of safety procedures. We organize regular health checks for employees and provide complementary vaccination for early identification and prevention of health issues. We also ensure all heat-prevention equipments are handed out to workers in time before summer season.

In terms of emergency preparedness, we have both a comprehensive emergency plan and special emergency plans for various types of accidents. We have 12 emergency rescue teams with 400 team members. The local hospital also has a clinical center on our yards to ensure fast response.

#### Social responsibility

We organize regular recreational activities to promote employees' work life balance and team building, including sport activities such as participation in external night marathons and photography competitions.

We care about the people and the society as a whole. As the Group employs thousands of technical workers who have their family and children near the yard, we make an effort to help them, such as on their children's education needs. We organize younger employees with university degrees to provide free tuition to the children of the workers. In return, these tutors receive a certificate for their volunteer work, and enjoy priority status should they apply to be evaluated for entitlement for financial support from the Group's charity fund. The project started in 2014. Over 30 volunteers participated and it has helped over 30 families.

#### Charity

The Group and Mr. Ren, our Executive Chairman, believe in returning to the society. Over the years, the Group and Mr. Ren have given hundreds of millions of RMB to society for various purposes.

In fact, Mr. Ren Yuanlin is renowned for his charity work, and was listed as No.4 in the China Philanthropist

List by Forbes in 2014. He donates the dividends from his one billion Yangzijiang shares to the Yuanlin Charity Foundation which he founded in 2011.

The Foundation primarily funds charitable work in elderly service facilities, disaster rescue, and assistance of the financially needy. It also finances technological innovation. The Yuanlin University for Senior Citizens in Jiangyin, with a capacity for 5,000 people and 100 classes, has substantially improved the quality of life for the elderly. The Foundation also plans to donate one billion RMB to another eight to ten such universities in neighbouring cities and one to two geriatric rehabilitation centres. The principal donation to Yuanlin Charity Foundation was made from Mr. Ren's personal wealth. The Foundation is managed by an independent institution with 3rd party supervision. In 2017, the Foundation donated RMB16 million to the universities and the geriatric rehabilitation centers. Since 2013, the Group has donated RMB200 million to various causes.

In 2016, Mr. Ren received accolades such as "Outstanding Entrepreneur of Jiangsu Province", "Outstanding Contribution Award for the Internationalization of Jiangsu's Businesses", and "Most Respected Businessman of Jiangsu".

#### **4. Governance**

Along with our financial and operational excellence, the Group has taken concrete action to improve corporate governance. One major step taken in 2015 was to appoint Mr. Ren Letian as the Group CEO. Mr. Ren Yuanlin, the former CEO of the Group, remains as Executive Chairman. This was part of the Group's succession planning strategy for sustained growth. We improved corporate governance by separating the roles of Chairman and CEO.

On sustainability reporting, Yangzijiang adheres to SGX guidance and publishes details on the environmental, social and governance (ESG) aspects of our business and strategy for investors to make informed investment decisions. Our sustainability performance is supervised by the Sustainability Committee and the sustainability reporting process is managed by the Investor Relations team.

#### Risk Management

The Group adopts conservative financial management and accounting policies. We make provisions for warranties on vessels delivered, as well as impairments for fleet, plant, property, and equipment to reflect market conditions. In FY2017, we made a provision of RMB1.2 billion to manage the risk of volatility in raw material prices and currency.

Over the years, we have built up a comprehensive risk management system to safeguard the Group's profitability. Measures adopted include the following:

#### Managing operational risk

- The Group's shipbuilding customer base is well-diversified geographically, with sales contribution from Asia countries, Australia, European countries, as well as from Canada and USA.
- Vessel building contract terms and conditions are prudently negotiated to deter vessel cancellation.

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- We proactively liaise with ship owners to understand the charter demand outlook and customer needs so as to pre-empt and work out solutions that lower the risk of vessel cancellation.
- We assist ship owners in obtaining ship financing.
- We renegotiate on delivery schedule and rework of vessel types.
- We provide temporary docking space in the event that a customer is unable to secure a charter contract by contracted vessel delivery date.

## Managing financial risk

- We use derivative financial instruments to reduce risk
- We have a stringent, multi-tier risk management system in financial investment.
- It is our policy not to extend credit to newly established real estate companies, or small medium enterprises that do not come with a strong cash flow projection.
- Our HTM financial assets are well-protected fixed-income investments backed by collateral of shares, land, guarantees by institutions of high credit rating such as banks, insurers or governments.
- To manage currency risk, USD/RMB forward currency contracts are used as hedging instruments for our USD shipbuilding contracts.

## 5. Stakeholders

In addition to employees and local communities that we mentioned above, other groups of stakeholders that the Group actively engages include customers, suppliers and shareholders.

### Customers

The Group has a systematic approach to ensure that customers receive thorough and high quality services from the time the shipbuilding order becomes effective to the warranty period after sales.

When any shipbuilding order becomes effective, a dedicated project management team will provide a detailed list with technological specifications for the customer to sign off. If the customer has any suggestions or requests, the project management team will coordinate with procurement, technology and other departments of the Group to amend the list accordingly until the customer approves.

The Group also provides all necessary support to the customer's representative assigned to the yard, and streamlines the collaboration and communication during each milestone in the construction period. Once the construction is completed, the Group will plan and coordinate with the customer regarding trial voyage, all documentation, cost settlement, balance payment, delivery ceremony and schedule, to ensure successful delivery and customer satisfaction.

In some occasions a customer might request for early or late delivery. As long as feasible, the Group makes necessary arrangements to meet the customer's request.

### Suppliers

The Group's procurement department is responsible for engaging suppliers for equipment, raw materials and thousands of small consumable goods. All qualified suppliers on the Group's supplier list will need to go through a bidding process in order to supply to the Group for a stipulated period. The department reviews and updates the supplier list according to quality, pricing, client service, delivery and post-sales service, etc. on a regular basis.

The Group has stable, reliable and professional relationships with a wide range of suppliers in China and the world. Its strong financial position allows it to always make payments to suppliers on time, or provide more favorable payment terms to suppliers, in which case suppliers would be happy to offer more competitive price to Yangzijiang for goods supplied.

### Shareholders

Yangzijiang's current shareholders include over 200 financial institutions, including pension funds and sovereign funds as well as thousands of retail shareholders. Financial institutions hold approximately 35% of the Group's shares traded on SGX<sup>1</sup>.

Headed by the CFO based in Singapore and its investor relations team, Yangzijiang engages shareholders on a regular basis. It organizes analyst briefings after every quarterly results announcement, and management attends road shows organized by local and foreign banks throughout the year. The management and its IR team keep close conversation with institutional shareholders in Singapore, Hong Kong, Mainland China, US, UK, India and other parts of the world. It also organizes site visit to the shipyards in China for analysts and investors. All site visit requests from the investment community are carefully attended to by the Chairman's office.

Yangzijiang has a good proportion of long-term shareholders, many of them have held the Group's shares since Yangzijiang's IPO days. In the 10-year listing celebration dinner held on April 28, 2017, some of these long-term retail shareholders were invited.

## CONCLUSION

Through various business cycles and social conditions, Yangzijiang has developed into a large-scale shipbuilding company with an established business concept and strategy, a stable and competent management team, and a well-defined corporate culture. Our public listing in 2007 on the Singapore Exchange has further enhanced our framework in corporate governance that protects the interest of shareholders, customers, suppliers, the government, and society. The Group won the SIAS Most Transparent Company Award 3 times in a row from 2010 to 2012. In 2015, Yangzijiang re-entered the Straits Times Index as one of its constituent stocks, an endorsement on Yangzijiang as a quality listed company on the SGX.

<sup>1</sup> As of Feb 28 2018