

FY2018

Zhongxin Fruit and Juice Limited

Company Registration No:
200208395H

FY2018 SUSTAINABILITY REPORT

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This Sustainability Report has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor") in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalyst.

This Sustainability Report has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this Sustainability Report, including the correctness of any of the statements or opinions made or reports contained in this Sustainability Report.

The contact person for the Sponsor is Mr Joseph Au, Associate Director, Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318a and Email: sponsorship@ppcf.com.sg).

1. Board Statement

On behalf of the Board of Directors (the “Board”), I am pleased to share our inaugural sustainability report for the financial year ended 30 June 2018.

The Group is committed to develop and improve the sustainability approach of its business environment. While managing well in the production and operations areas, the Group will also make a greater effort and contribution to society and the local community.

We emphasize on employing a strategic approach to manage and oversee Economic, Environmental, Social and Governance (“EESG”) topics significant to our business. We have identified the sustainability topics deemed to be material to our business and stakeholders, namely: Effluents Management; Training and Education for Employee and Quality & Safety on Concentrated Juice. This report shows our sustainability approaches on handling and managing these topics.

The sustainability requirements have encouraged us to define our sustainability approach, think about certain elements within our sustainability framework, and to have robust and thoughtful discourse. These topics have helped us to make our approach to sustainability more comprehensive and establish a concrete platform for our future initiatives.

The Board having considered sustainability issues as part of its strategic formulation, determined the material EESG topics and oversees the management and monitoring of material sustainability topics. Management provides regular update to the Board on the status of these material topics highlighted in the report.

We would like to express our gratitude to our employees and management for their on-going efforts to contribute in this sustainability exercise and we also thank our other stakeholders for their invaluable support and trust.

Zhang Jiming

Chairman & Executive Director

2. About the Group

Zhongxin Fruit and Juice Limited ("Zhongxin" or the "Company") and together with its subsidiaries (collectively known as the "Group") is a subsidiary of the world's leading producer of fruit and vegetable juice concentrates and beverages, SDIC Zhonglu Fruit Juice Co., Ltd. ("SDIC Zhonglu"). The main business of the Group is the production of concentrated apple and pear juice which is sold mainly to multinational Food & Beverage ("F&B") corporations in the United States, Japan, Germany, Russia and Turkey via SDIC Zhonglu. The concentrated apple juice produced is used as an ingredient in packet juice drinks, soft drinks, cider, yoghurt and candies.

The Group consists of two 100% owned subsidiaries, which are Yuncheng Zhongxin Fruit & Juice Company Limited ("Yuncheng Zhongxin") and Xuzhou Zhongxin Fruit & Juice Company Limited ("Xuzhou Zhongxin"), and a joint venture company, known as Linyi SDIC Zhonglu Fruit Juice Co., Ltd ("Linyi SDIC Zhonglu").

Zhongxin is listed on the Catalist Board of the Singapore Exchange Securities Trading Limited ("SGX-ST") with a registered office in Singapore and its main operations are located in the People's Republic of China ("PRC").

The Company's main production line is located at Yuncheng, PRC. Since FY2015, the production of Xuzhou Zhongxin has been temporarily suspended due to the shortage of qualified raw materials.

The Group is committed to focus on safe production, food safety, environmental protection and social responsibility in the production and management activities. This will promote better economic development, increase farmers' income and maximize the benefits of investors.

3. Operation and Financial Overview

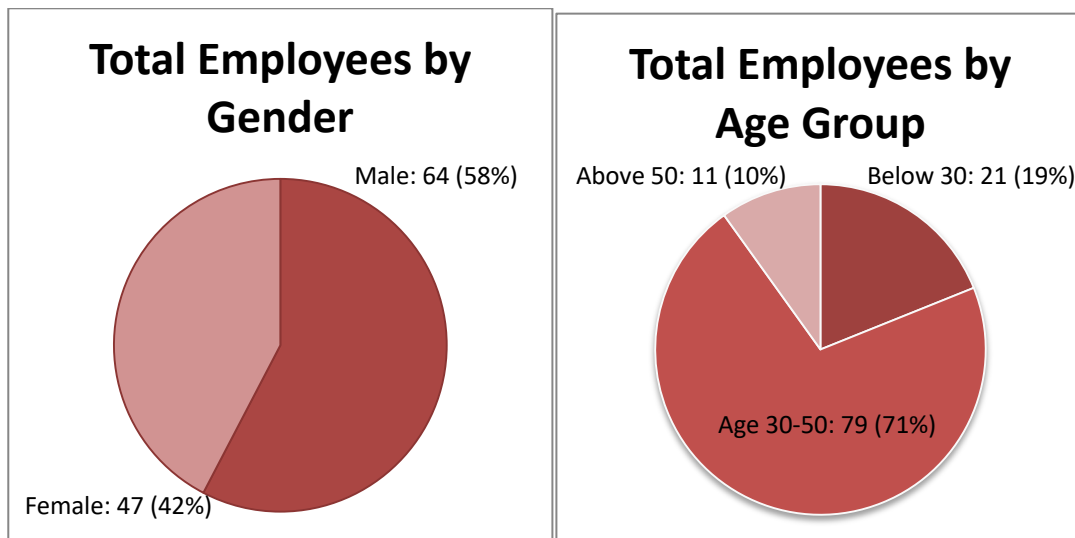
During the production season from July to December, farmers will sell their apples to the Group which will be used for the production of the concentrated apple juice.

Quality Control staff will be checking the quality of the apples (such as the acidity, brix and the size of the apples) before accepting the purchase transaction. The Group uses fruits such as apples as the raw material, which are put through the process of crushing, pressing, ultrafiltration and condensation to produce the concentrated fruit juice.

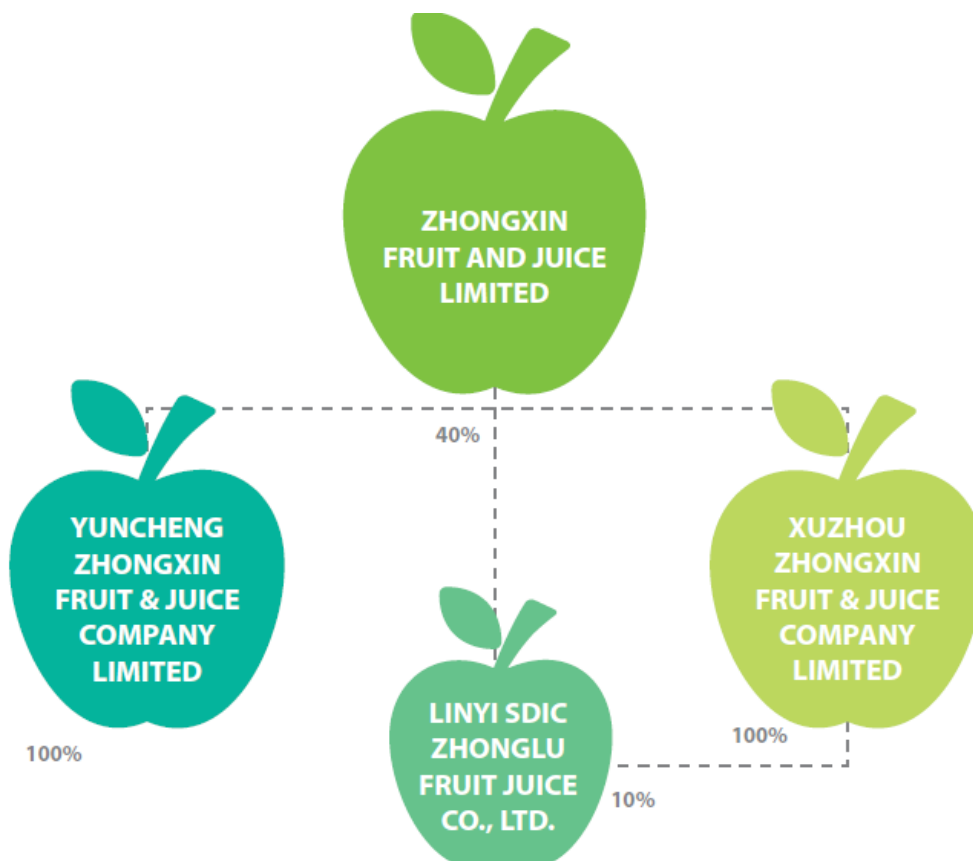
The Company has established a strict policy to monitor the production of the concentrated fruit juice to ensure the quality of the finished product. Yuncheng Zhongxin and the Linyi SDIC Zhonglu are each equipped with production capacity of approximately 15,000 tons of the concentrated juices each per year.

In FY2018, the Group recorded total profit before tax of RMB5.44 million, income tax expense of RMB77,000 and net profit of RMB5.36 million. Group revenue for FY2018 rose to RMB121.9 million, an increase of 37% as compared to RMB88.8 million in FY2017. This was mainly due to higher customer demand for the concentrated apple juice.

4. Our People



5. Group Structure



6. About this Sustainability Report

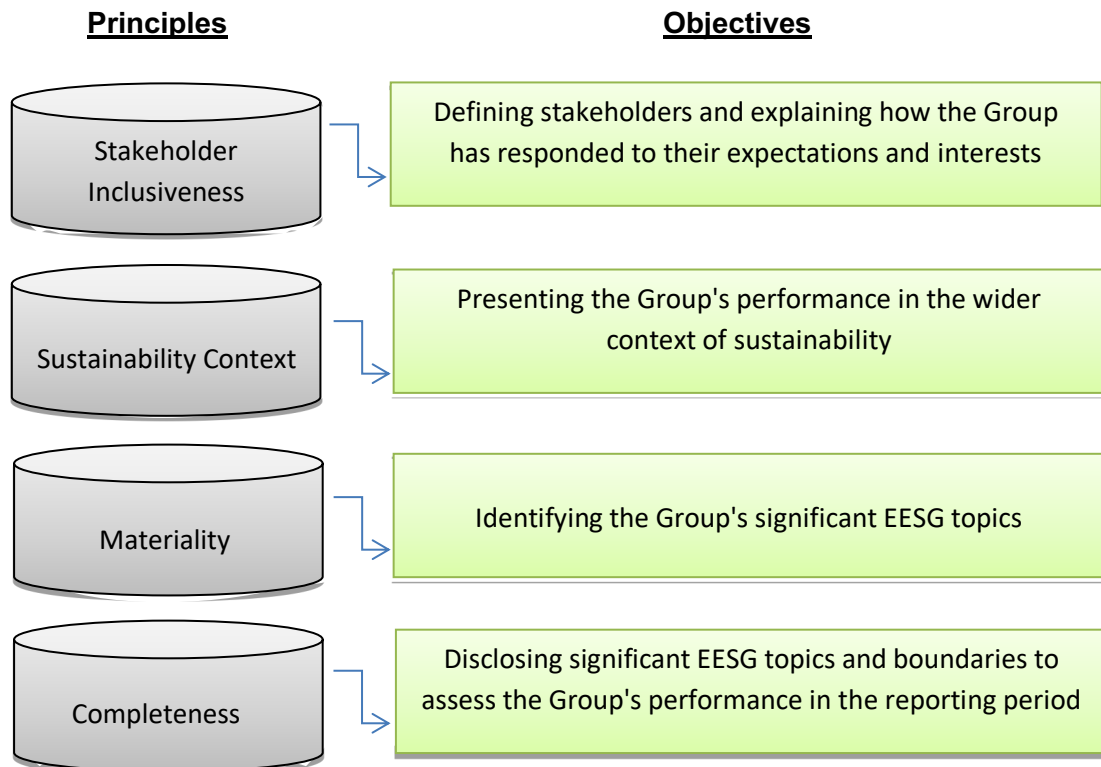
We would like to present the inaugural sustainability report of Zhongxin Fruit and Juice Limited for the financial year ended 30 June 2018 (“FY2018”). All data and information are collected with respect to the timeframe from 1 July 2017 to 30 June 2018. Reporting cycle is on an annual basis and the Sustainability Report will be issued within 5 months from the end of the financial year.

This report is prepared in accordance with the Global Reporting Initiative (“GRI”) Standards – “Core” option, the international standard for sustainability reporting. The Group has adopted the GRI Standards as a guideline for sustainability reporting because it covers a comprehensive range of sustainability disclosures, some of which have been adopted in this report.

This report is also prepared in accordance with Rules 711A and 711B of the SGX-ST Listing Manual Section B: Rules of Catalist (“Catalist Rules”) –Practice Note 7F of the Catalist Rules. Our data is reported in good faith and to the best of our knowledge. Currently, there is no external assurance sought for this report.

Our inaugural sustainability report provides detailed disclosures of our management of sustainability risks and opportunities in the areas of EESG topics. It also identifies the Group’s material sustainability issues as well as stakeholders with direct or indirect interest in the Group’s activities. Through this sustainability report, we hope to share our responsibility on sustainability issues with all our stakeholders. As the Group does not have full control over Linyi SDIC Zhonglu as it is a joint venture company, the disclosure and monitoring of the EESG topics are only pertaining to Yuncheng Zhongxin and Xuzhou Zhongxin of which the Group have full control.

The content of this sustainability report is identified by the 4 Content Reporting Principles established by GRI Standards, as follows:



7. Corporate Governance

In the course of business, the Group is fully committed in maintaining a high standard of corporate governance. The Company has adhered to principles and guidelines set out in the Code of Corporate Governance 2012 (the “Code”) and the disclosure guide developed by the Singapore Exchange Securities Trading Limited (the “SGX-ST”). Where applicable, the Company has specified and explained the deviation from the Code in its annual report dated 10 October 2018.

The Board has established three committees to assist it in the execution of its responsibilities, namely the Audit Committee, the Nominating Committee and the Remuneration Committee. Each Committee has its own terms of reference and operating procedures, which are reviewed periodically.

The primary roles of the Board are to protect and enhance long term shareholders’ value and returns, set the Group’s corporate strategies and directions, oversee management of the Group’s business affairs, financial performance and key operational initiatives, and implementations of risk management policies and practices.

Adhering to the Board’s strong leadership, our management team led by the Executive Director, supported by the General Manager, who is responsible for the overall operations of the Group, have thoroughly implemented the business objectives for the year and built a comprehensive organisational structure and business procedures, based on internal controls best practices.

8. Anti-Corruption Practices

At Zhongxin, all forms of bribery and corruption are prohibited and will not be tolerated.

The Group has established whistle blowing policy to provide guidance and an opportunity to our employees to highlight any concerns regarding fraud, bribery, corruption and other similar activities.

The policy applies to all directors, employees, including full-time and part-time employees and external stakeholders of the Group, and every concern shall be lodged with the Audit Committee through email at AC@zhongxinfr.com.

9. Sustainability Governance

The Group has established a sustainability committee to monitor and ensure that its approach and action plans are in place and working smoothly. The sustainability committee comprises the Steering Committee and the Working Committee.

The Steering Committee develop and oversee the sustainability policy and framework. They also provide regular updates to the Board of Directors on the sustainability matters. The sustainability strategy, framework and policy are approved by the Board of Directors. The Working Committee assists the Steering Committee in implementing the sustainability action plans and providing relevant information.



Figure: Sustainability Governance Structure

10. Stakeholder Engagement

We believe in working closely with our stakeholders to operate the business and achieve our Group's goals as they understand our business and day-to-day activities. We have identified our investors, employees, suppliers and parent company as our stakeholders because they have the ability to influence our business performance and provide effective solutions to incorporate sustainability approaches into our operations.

Zhongxin has regular interaction with a range of stakeholders based on different kinds of engagement approaches, as seen below:

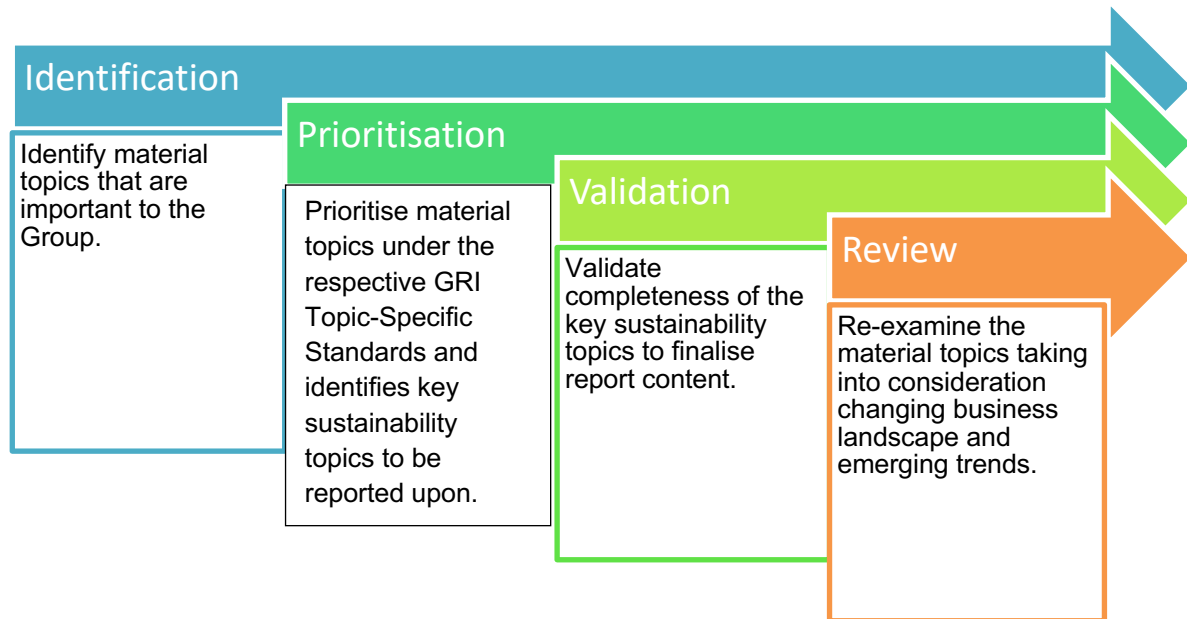
Stakeholder Group	Engagement Approach	Key Interests
Managers and Employees	<ul style="list-style-type: none"> • Formal and informal meetings • Regular dialogue • Training programmes 	<ul style="list-style-type: none"> • Employee competency skill • Teamwork • Better working environment
Suppliers/ Farmers	<ul style="list-style-type: none"> • Trading of apples and pears • Phone calls • Formal & informal meetings 	<ul style="list-style-type: none"> • Equitable selling prices • Stable cooperation
Investors/ Shareholders	<ul style="list-style-type: none"> • Annual general meeting • Public announcement on company information • Annual report & sustainability report 	<ul style="list-style-type: none"> • Better corporate governance • High financial returns • Identify risk and opportunities
Parent Company (SDIC Zhonglu)	<ul style="list-style-type: none"> • Formal and informal meetings • Workshops 	<ul style="list-style-type: none"> • Sustainable development • Advocating best practices
Government Agency/ Regulator	<ul style="list-style-type: none"> • Site visits & workshops • Formal meetings • Dialogue sessions 	<ul style="list-style-type: none"> • Compliance with rules and regulations

Figure: Approaches of Stakeholder Engagement

11. Materiality Assessment

The Group has engaged an external sustainability consultant to work with the Steering and Working Committee on the sustainability approach and has developed a list of EESG topics that the Group considered material and important to the stakeholders.

The Group adopts a four-step process to define the material EESG topics:



The Steering Committee has prioritised the material topics based on the impact to the operations and the inputs received from the various stakeholders whom they have contacted and interacted from the day-to-day business activities. The following EESG topics have been identified and the approaches of managing these topics are stated in this report:

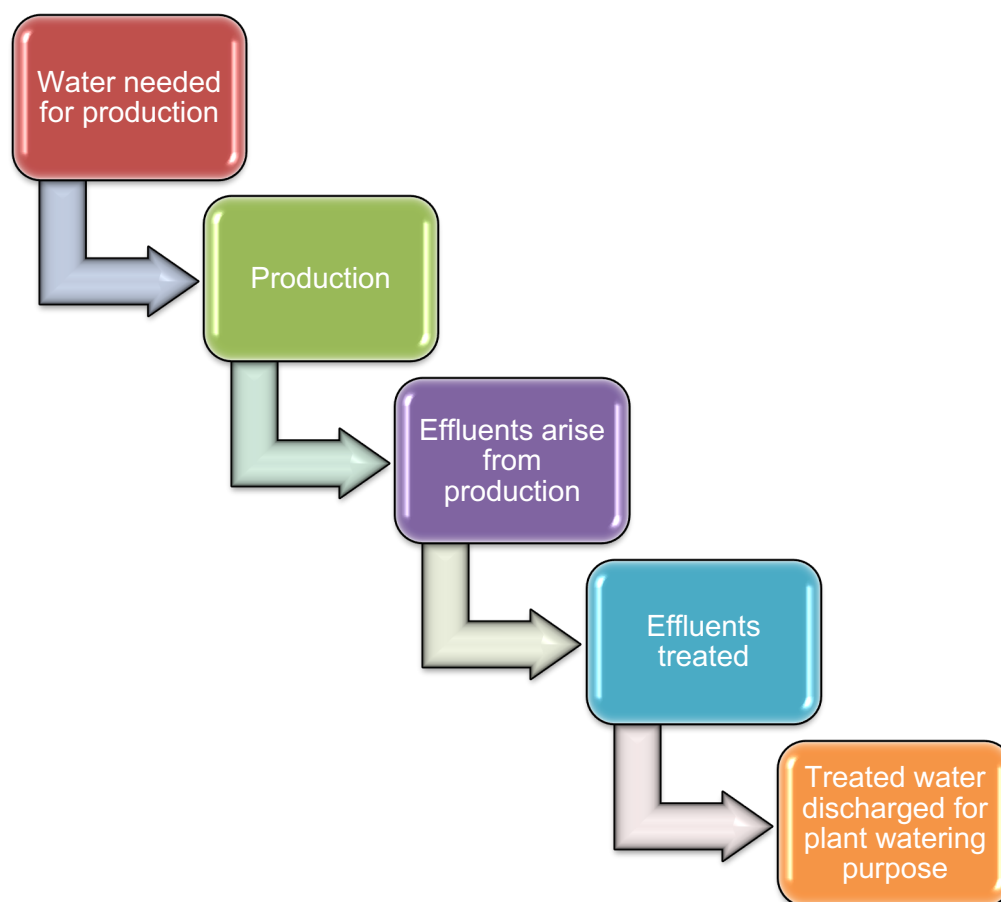
Material EESG Topics	
GRI 306-1	Effluents Management
GRI 404-1	Training and Education for Employee
GRI 416-2	Quality and Safety on Concentrated Juice

12. Effluents Management (GRI 306-1)

The Group is committed to operate the business in an environmentally friendly manner. Production of concentrate apple juices requires a significant amount of water. After going through the production process, this water becomes effluents which need to be discharged in a proper manner.

All the company's sewage is collected into the company's sewage treatment station through the underground sewage pipe network, and the solid-liquid separation is carried out through the filtration equipment in order for the solid material to be sent to the garbage disposal station for pollution-free treatment. After the sewage treatment process is passed through the biochemical treatment, the sewage is discharged to the temporary storage pool outside the company. The treated sewage can fully meet the requirements of farmland irrigation water standards, and is used by local villagers for irrigation and land greening in nearby fields.

The Group will ensure that the treated effluents can fully meet the requirements of the farmland irrigation water standards. All the treated water is sent to a storage pool which is located outside of the Group's premises and used by the local farmers for plant irrigation. The following diagram shows the summary of the process of treating the effluents:



Our employees monitor closely on the availability of treated effluents to be sent out from the premises. The table below shows the total volume of water used for production, effluents produced and treated monthly for FY2018:

Water needed for Production	Effluents Arising from Production	Effluents Treated
41,000 Cubic Meters	40,000 Cubic Meters	40,000 Cubic Meters

During the production season from July to December 2017, the effluents collected were approximately 241,800 cubic meters or approximately 40,000 cubic meters per month.

In the future, we will adhere to the processing sewage standards to ensure that all discharged sewage is up to standard and can be used for crop irrigation.

13. Training and Education for Employee (GRI 404-1)

One of the fundamental goals of the Group is to ensure that all its employees and managers are appropriately trained and have acquired professional skills in order to improve the Group's productivity and also to achieve their individual career aspirations.

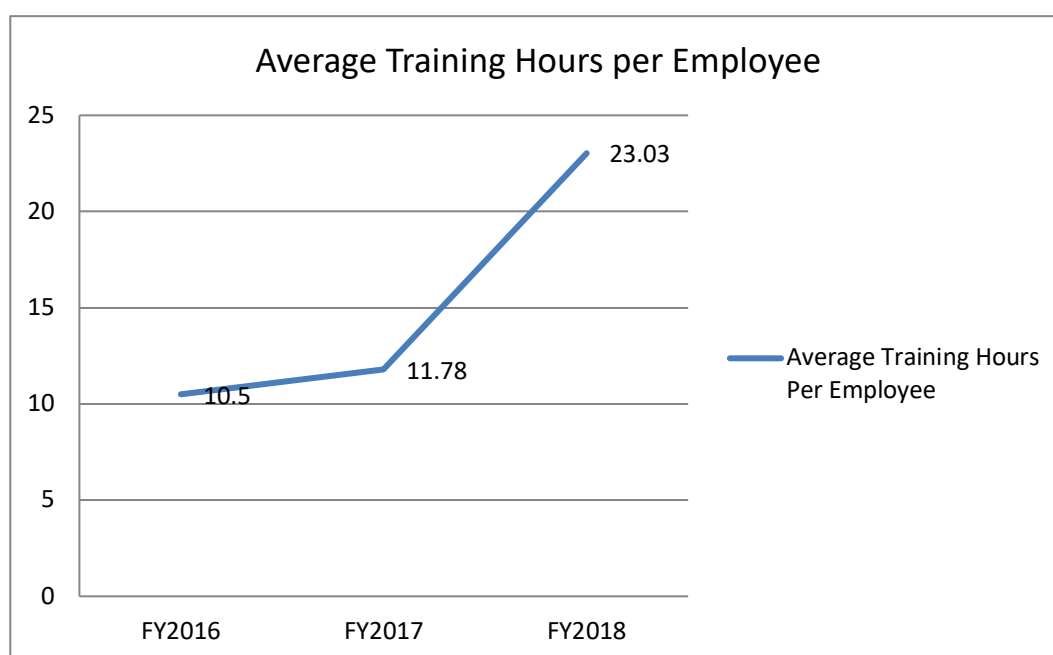
During the beginning of the production season from July to December, internal training courses are provided to all employees and on-site hands on practices are carried out to ensure that they understand the operating system. The Group will also source for external training courses for employees if it is required. Employees also attend safety training courses to create a safe working environment and culture.

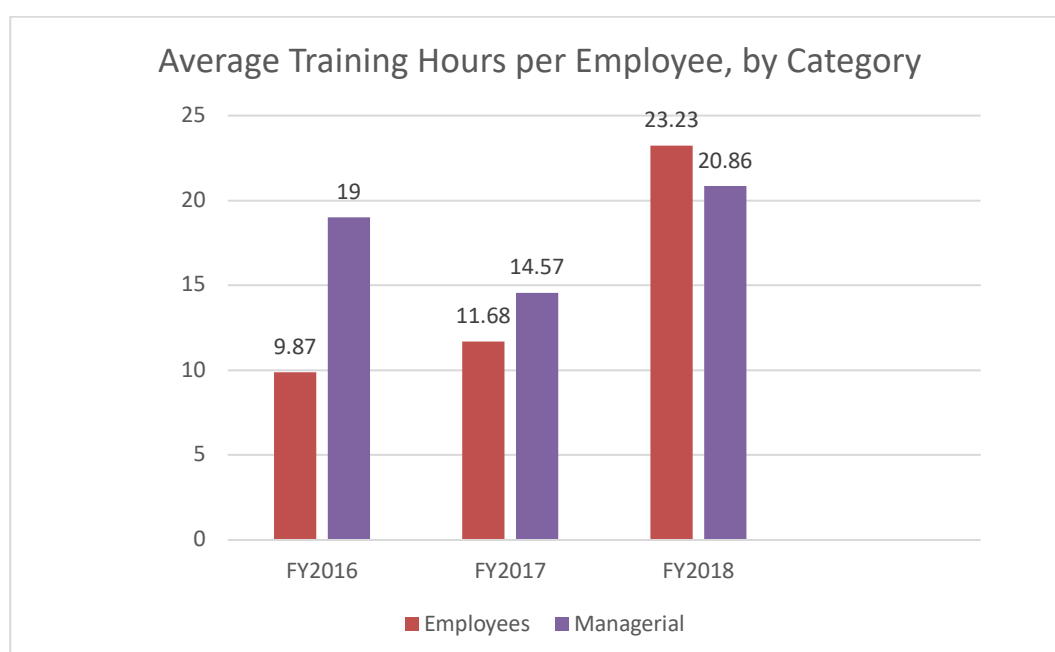
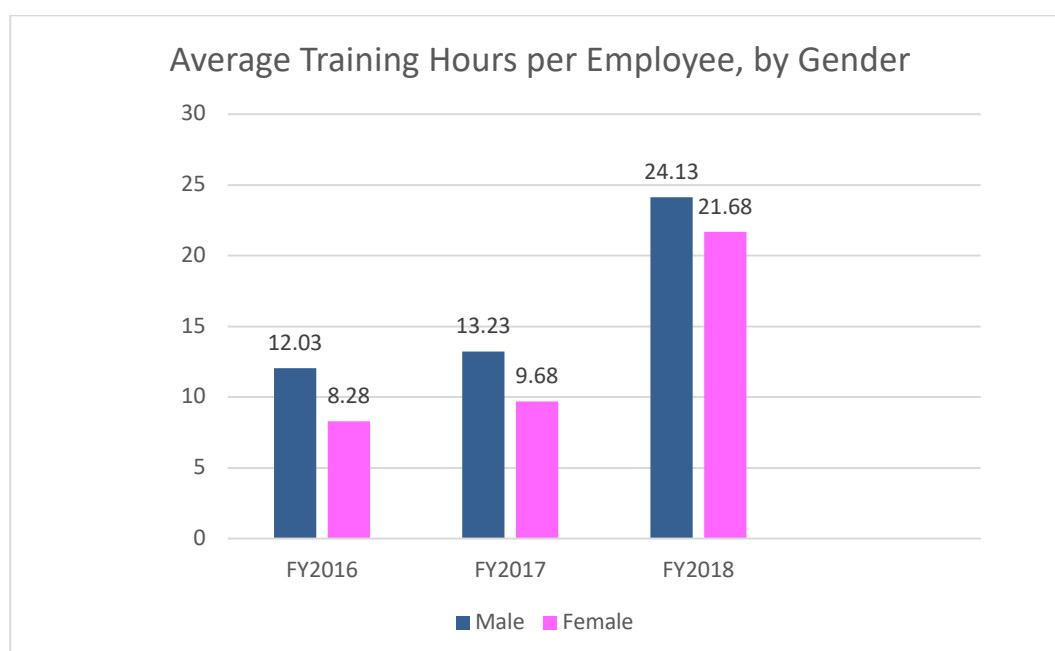
Regular meetings are held between the Head of Departments and the General Manager to understand the various types of training required for the various employees.

All the training courses are recorded and monitored by the Human Resource Department. Some examples of training courses offered to employees are as follows:

- 1) Good Manufacturing Process (GMP)
- 2) HACCP system – Quality Control
- 3) FSSC22000 Food Safety and Quality Management System
- 4) Linyi County Safety Supervision Bureau Safety Training; and
- 5) Concentrated apple juice processing procedures and related knowledge

The average training hours provided to employees in the Group can be found in the following graphs below:





In FY2018, the average training hours per employee is 23.03 hours. In the financial year ending 30 June 2019 (“FY2019”), we aim to provide an average of 25 training hours per employee in order to enhance the employees’ skills and knowledge.

14. Quality and Safety on Concentrated Juice (GRI 416-2)

It is of utmost importance and the top priority for the Group to ensure that our concentrated juice is healthy and safe for consumption. We have developed stringent quality control and food safety policy to provide concentrated juices that are fit for safe consumption by the end users.

The government of the People's Republic of China has established stringent Food Safety Law for the food industry. According to the food safety law, the Group must carry out quality control and evaluation of the production process and finished products. The Group has engaged an independent third party inspector to test and verify the finished products at least twice a year.

There are several key factors which are to be tested for the concentrated juices, as shown below:

- Acidity
- Microorganism
- Pesticide Residue
- Turbidity
- Patulin

The Group complies with several food safety standard and guidelines, such as the US FDA standards, ISO quality and HACCP guideline. Based on the set standards and guidelines, we are able to identify potential food safety risks and develop preventive controls and approaches to mitigate the risks.

The Group has not breached any health and safety related regulations in FY2018. There were also no fines or non-monetary sanctions for non-compliance with regulations. In FY2019, we target to maintain zero safety related incidents.

15. Contact Information

We welcome feedback from the readers or our stakeholders on our sustainability management as this will enable us to strengthen our sustainability strategy and results. We truly appreciate all comments or suggestions directed to the following address:

Zhongxin Fruit and Juice Limited
25 International Business Park,
#02-53 German Centre,
Singapore 609916
Tel: 6557 2308

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