



Company Registration No.: 200208395H

## **Sustainability Report 2019**

## TABLE OF CONTENTS

| No. | Topics                                   | Pages   |
|-----|--|---------|
| 1.  | Board Statement                          | 1       |
| 2.  | About the Group                          | 2 – 4   |
| 3.  | Operation and Financial Overview         | 5 – 6   |
| 4.  | Our People                               | 6       |
| 5.  | Group Structure                          | 7       |
| 6.  | Governance Structure                     | 7       |
| 7.  | Sustainability Governance                | 8       |
| 8.  | Stakeholder Engagement                   | 9       |
| 9.  | Materiality Assessment                   | 10      |
| 10. | Effluents Management                     | 11 -12  |
| 11. | Training and Education for Employee      | 13      |
| 12. | Quality and Safety on Concentrated Juice | 14      |
| 13. | GRI Content Index                        | 15 – 16 |

*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](mailto:sponsorship@ppcf.com.sg)).*

## BOARD STATEMENT

The Board of Directors (the “Board”) is pleased to present its second Sustainability Report of Zhongxin Fruit and Juice Limited (“Zhongxin” or the “Company”, and together with its subsidiaries, the “Group”) for the financial year ended 30 June 2019.

This report aims to inform stakeholders of Zhongxin Fruit and Juice Limited about our sustainability efforts in a transparent and accountable manner. It covers the Group’s strategies, policies, practices and performance in relation to economic, environmental, social and governance (“EESG”) issues. Our report draws on the internationally recognised framework, the Global Reporting Initiative’s (“GRI”) Sustainability Reporting Standards.

This year’s report continues to be based on the 3 material topics that were identified earlier in FY2018. Together with Management, the Board having considered sustainability issues as part of its strategic formulation, determined those topics remained to be of significant importance to the Group. Sustainable practices in these areas is part of our strategy towards ensuring long-term and continued success for the Group. Our team has worked hard on the relevant EESG aspects and we are proud to have met most of the targets set in FY2018. The team also recognizes that the sustainability story is an evergreen journey and will continue to set challenging yet meaningful targets.

We will continually monitor the business environment we operate in, to ensure relevancy of the material topics that we are currently focused on. The Sustainability framework is important for the Board and management to monitor our performances, and to gather valuable feedback from the grassroots level about the direction we are taking for our sustainability journey.

I would like to extend my appreciation to all stakeholders for your continued support in the company’s effort to enhance our EESG aspects, for a better and more sustainable Zhongxin.

Zhang Jiming  
Chairman & Executive Director

## 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, 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 an investment holding Company that 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.

### Reporting Period and Scope

The report covers information on our sustainability performance from 1 July 2018 to 30 June 2019 ("FY2019"), with the performance from the prior year ("FY2018") included for comparison where possible.

As we gradually mature and progress along our Sustainability Reporting journey, we will periodically review and reassess for the inclusion of more of our operations in our future editions. The ultimate goal is for us to eventually publish a comprehensive Sustainability Report.

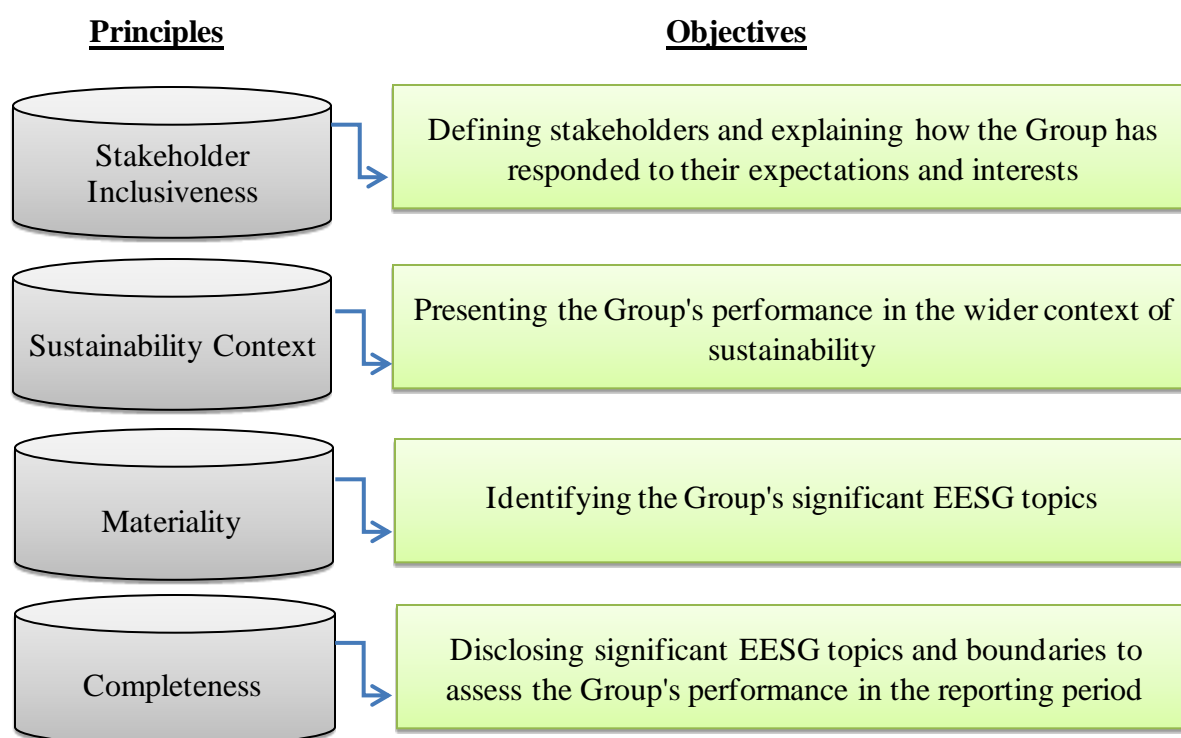
### Independent Assurance

Independent assurance has not been sought for this report. We may consider external assurance as our reporting matures over time.

## Reporting Framework

The report is prepared in compliance with Practice Note 7F Sustainability Reporting Guide of the Singapore Exchange Securities Trading Limited (“SGX-ST”) and in accordance to Global Reporting Initiatives (“GRI”) Standards: Core option. We have chosen to report using the GRI Standards for its universally recognised and standardised approach in disclosing material sustainability matters. Reference has also been drawn from Rule 711A of the Catalyst Rules and the primary components of Sustainability Reporting as set out in Rule 711B of the Catalyst Rules.

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



## Feedback

Zhongxin is fully committed to serving all stakeholders. We welcome all feedback, views and comments to improve our sustainability practices and reporting process.

The policy applies to all directors, employees, including permanent and temporary employees and external stakeholders of the Group and every concern shall be lodged with the Audit Committee through email at [AC@zhongxinfj.com](mailto:AC@zhongxinfj.com).

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: +65 6557 2308

## OPERATION AND FINANCIAL OVERVIEW

The Group was able to benefit from the surge in selling price of concentrated fruit juices in FY2019 despite the decline in the volume of sales to the customers and remained profitable in the financial year. The Group takes an optimistic view of the growth prospects of the international fruit juice market in the mid to long term. However, the Group is cautious as the general outlook of the global economy remains uncertain and challenging.

In FY2019, some major apple producing areas in China suffered from frost disasters and the harvesting of apples was adversely affected, resulting in higher raw material costs as compared to FY2018. Furthermore, in compliance with relevant national environmental regulations, the Group switched from the use of coal-fired boilers to the use of natural gas in all our operational plants at the beginning of the production season. These led to an increase in production costs in FY2019 as compared to FY2018.

The subsidiary of the Company, Yuncheng Zhongxin Fruit and Juice Company Limited (“Yuncheng Zhongxin”), after deliberating on the escalating costs and market situation, took the decision to reduce the level of production in FY2019 to cater to the market demand.

The shortage of quality raw materials in the procurement region of a subsidiary, Xuzhou Zhongxin Fruit and Juice Company Limited (“Xuzhou Zhongxin”) persisted in FY2019. The management decided to continue the suspension of Xuzhou Zhongxin’s operations which has taken place since the second half of calendar year 2015 (“Temporary Suspension”). The management will continuously monitor the situation and if market conditions improve, it will consider resuming production in the next fruit harvesting season starting in the financial year ending 30 June 2021 or will seek concentrate fruit juice contract manufacturers in the western China to reduce cost.

The Group will continue to step up efforts on environmental governance in accordance with relevant national environmental protection policies. The subsidiaries have completed the switch from coal-fire boilers to the use of natural gas. FY2019 was challenging as the Group has to manage the increase in production cost and deal with unforeseeable catastrophic natural disaster that damaged crops and disrupted the supply and pricing of raw materials.

Nevertheless, the surge in the market prices of the concentrated juices was higher and the Group was able to pass on the higher raw material costs to its customers and achieve a higher gross profit margin.

As a result of the above, In FY2019, the Group recorded profit after tax of RMB4.16 million, a decrease of 22% as compared to RMB5.36 million in FY2018. Group revenue for FY2019 was RMB99.99 million, a decreased of 18% as compared to RMB121.87 million in FY2018, recorded total profit before tax of RMB5.44 million.

The Group also intends to look into supporting the customers' initiatives to develop and broaden geographical market reach and product distribution channels, thus minimizing the external pressure brought by the Sino-US trade friction as the US demand for China produce will face stiff competition from Europe which has enjoyed good harvest of apples in the new pressing season.

The Group is cautiously optimistic on the future demand for the concentrated fruit juice market and will remain flexible to address challenges and opportunities as they arise.

## OUR PEOPLE

Our organization is defined by the people here at Zhongxin. It is our policy to uphold fair employment practices in our hiring process and maintain zero tolerance of any form of discrimination. We believe in providing equal opportunities for all employees to help them realise their fullest potential. From FY2018 to FY2019, our male employee numbers decreased from 91 to 88 while the number of female employees we engaged decreased from 74 to 66. The gender ratio remains relatively unchanged compare to FY2019.

| Companies' Name | Gender           |           |                  |           |
|-----------------|------------------|-----------|------------------|-----------|
|                 | Male             |           | Female           |           |
|                 | 2018             | 2019      | 2018             | 2019      |
|                 | No. of Employees |           | No. of Employees |           |
| Yuncheng        | 85               | 83        | 65               | 57        |
| Xuzhou          | 6                | 5         | 8                | 8         |
| Zhongxin        | 0                | 0         | 1                | 1         |
| <b>Total</b>    | <b>91</b>        | <b>88</b> | <b>74</b>        | <b>66</b> |
|                 |                  |           |                  |           |

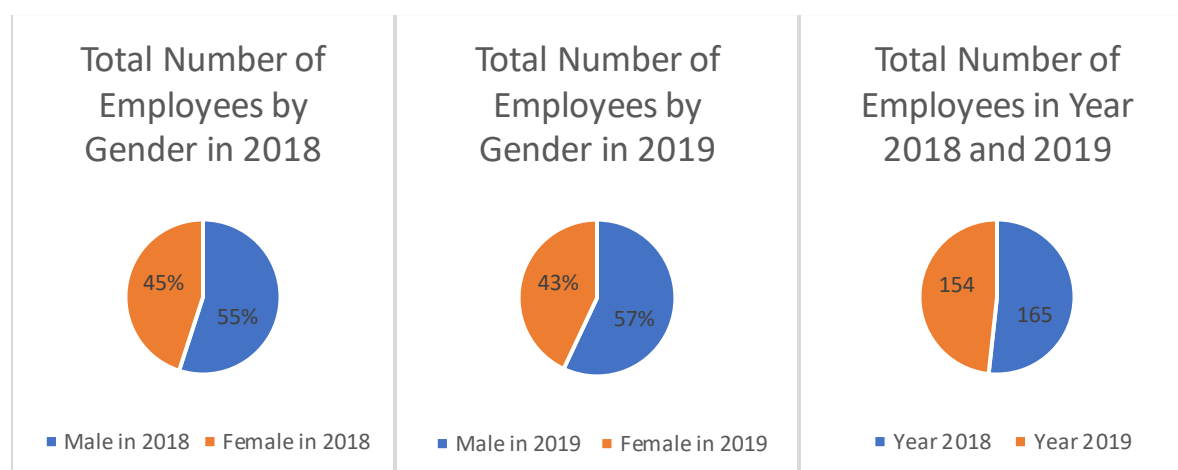


Figure 1: Employee Numbers at Zhongxin headquarters and 2 entities as outlined in our reporting scope



## GROUP STRUCTURE

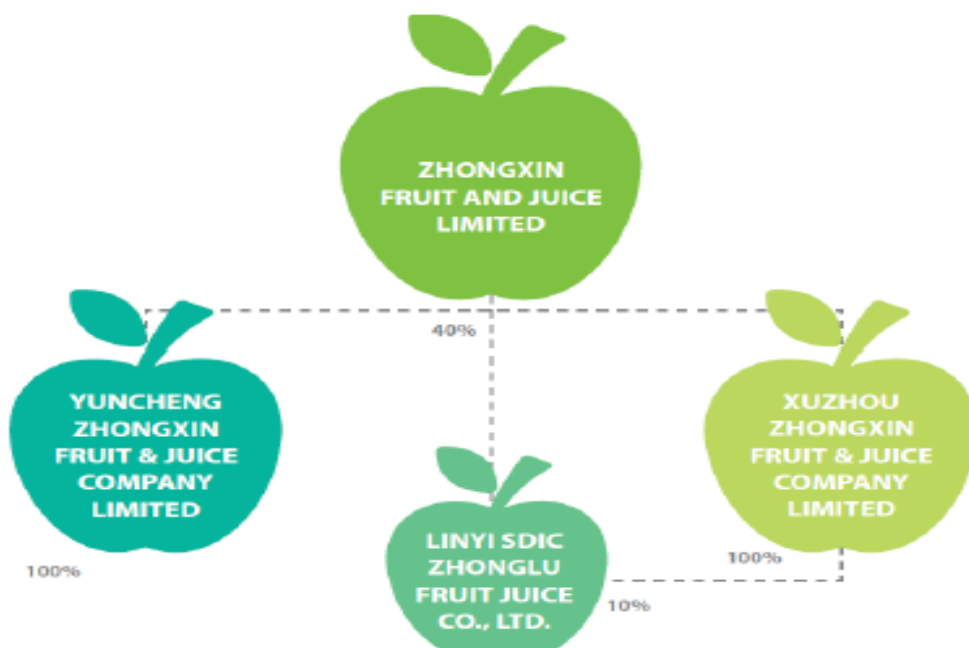


Figure 2: Zhongxin's Group Structure for FY2019

## GOVERNANCE STRUCTURE

A robust governance structure is crucial to ensure Zhongxin Fruit and Juice Limited's commitment to sustainability.

Zhongxin Fruit and Juice Limited 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. On top of having key management personnel, the appointments of independent external and internal auditors and their reviews enhances governance for the Company.

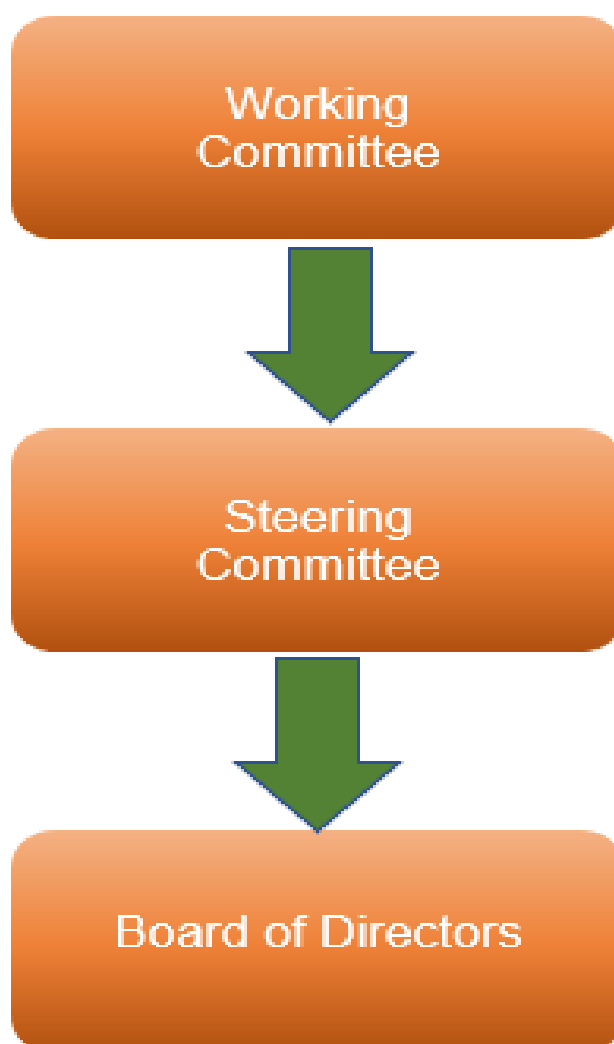
The primary roles of the Board are to protect and enhance long term shareholders' value and returns, set the Group's corporate strategies and directions, oversee management of the Group's business affairs, financial performance and key operational initiatives, implementations of risk management policies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

The Board holds formal meetings quarterly or convenes ad-hoc meetings when circumstances require. Where a physical board meeting is not possible, the Board can communicate through electronic means or via circulation of written resolutions for approval.

## SUSTAINABILITY GOVERNANCE

The Board of Directors has oversight of the Group’s sustainability strategy. The Board’s responsibilities include providing guidance on the material EESG factors that impact the Group’s activities. In managing the sustainability strategy, the Board is assisted by the Sustainability Reporting Committee (“SRC”) which comprises the Steering Committee and Working Committee.

The Steering Committee develops 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 3: Sustainability Governance Structure*

## STAKEHOLDER ENGAGEMENT

Understanding and responding to the needs and feedback of stakeholders is key to achieving business sustainability and satisfactory outcomes for stakeholders. The Group's stakeholders are those who are materially influencing or are affected by the Group's business. Stakeholders' inputs lead the Group in determining priorities and arranging activities.

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

| Key Stakeholder Groups | Engagement Platforms             | Key Interests                             |
|------------------------|----------------------------------|---|
| Internal stakeholders  | Managers and Employees           | ● Staff dialogue sessions                 |
|                        |                                  | ● Employee competency skill               |
|                        |                                  | ● Teamwork                                |
| External stakeholders  | Supplier and Farmers             | ● Better working environment              |
|                        |                                  | ● Phone calls                             |
|                        |                                  | ● Equitable selling prices                |
|                        | Investors and Shareholders       | ● Formal / informal meetings              |
|                        |                                  | ● Stable cooperation                      |
|                        |                                  | ● Trading of apples and pears             |
|                        |                                  | ● Annual report and sustainability report |
|                        |                                  | ● Better corporate governance             |
|                        |                                  | ● Announcement and circulars              |
|                        |                                  | ● High financial returns                  |
|                        | Parent Company (SDIC Zhonglu)    | ● Public announcement on Company          |
|                        |                                  | ● Identify risk and opportunities         |
|                        | Government Agency and Regulators | ● Annual General Meeting                  |
|                        |                                  | ● Annual report and sustainability report |
|                        |                                  | ● Formal and informal meetings            |
|                        |                                  | ● Sustainable development                 |
|                        |                                  | ● Workshops                               |
|                        |                                  | ● Advocating best practices               |
|                        |                                  | ● Site visits and workshops               |
|                        |                                  | ● Compliance with rules and regulations   |
|                        |                                  | ● Formal meetings                         |
|                        |                                  | ● Dialogue sessions                       |
|                        |                                  |   |

Figure 4: Approaches of Stakeholder Engagement

## 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.

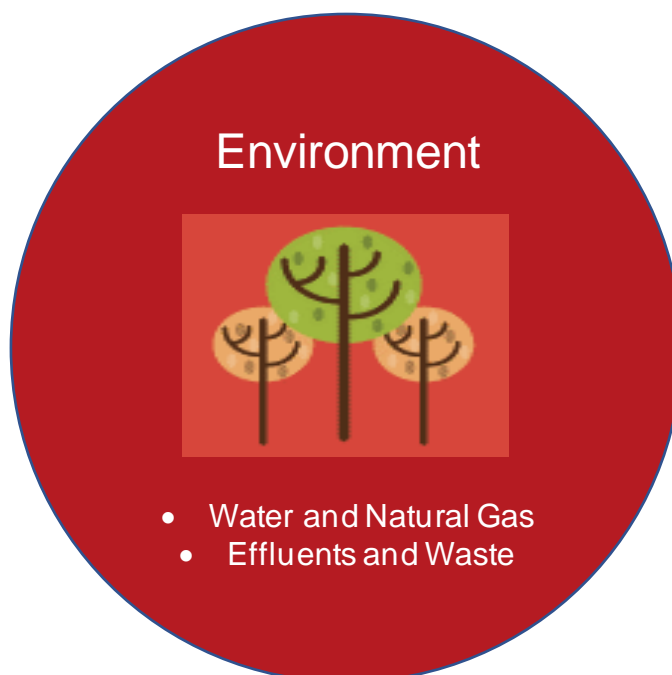
The Group adopts a four-step process to determine the relevant material EESG topics that are key areas of interest to our stakeholders and involve substantive impacts from our business activities.



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:

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

## EFFLUENTS MANAGEMENT



Our management philosophy is to adopt a precautionary approach to environmental challenges by addressing material environmental risks and impacts on our operations.

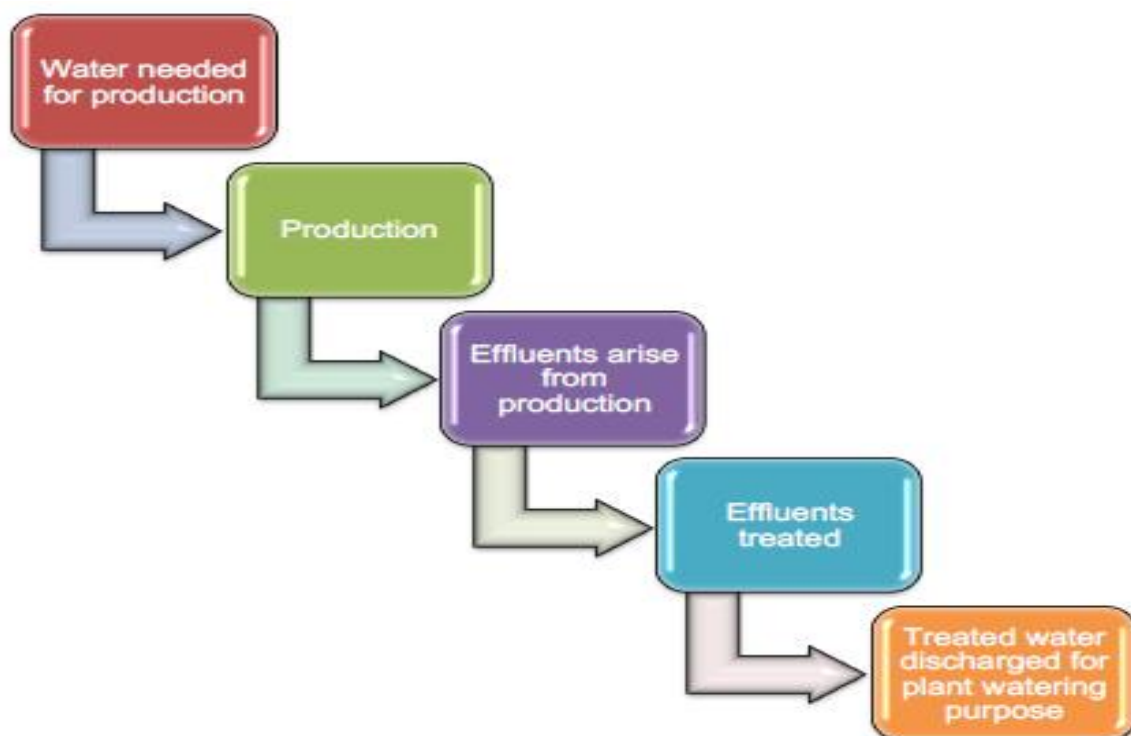
Water scarcity, flooding and lack of proper wastewater management also hinder social and economic development. Increasing water efficiency and improving water management are critical to balancing the competing and growing water demands from various sectors and users.

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

We need clean potable water as a vital ingredient for our products as well as for our production process. Therefore, the importance of water and water management is top of priority in our business. We constantly seek to achieve more efficient use of water. By constantly pursuing better water saving and technologies, we strive to evolve the way beverage can be produced.

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 also ensure that the treated effluents can fully meet the requirements of the farmland irrigation water standards. All the treated water are 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 closely monitors the useability of treated effluents to be sent out from the premises. 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.

The table below shows the total volume of what used for production, effluents products and treated monthly for FY2018 and FY2019:

|      | <b>Water needed for Production</b> | <b>Effluents arising from Production</b> | <b>Effluents Treated</b> |
|------|------------------------------------|--|--------------------------|
| 2018 | 41,000 cubic meters                | 40,000 cubic meters                      | 40,000 cubic meters      |
| 2019 | 24,818 cubic meters                | 27,515 cubic meters                      | 27,515 cubic meters      |

The effluents collected were approximately 27,515 cubic meters per month during the FY2019 production season.

In compliance with relevant national environmental regulations, the Group switched from the use of coal-fired boilers to the use of natural gas in all our operational plants at the beginning of the production season. Natural gas is more environmentally friendly than coal due to lower carbon dioxide (CO<sub>2</sub>) emissions per unit and are also more readily available domestically albeit the higher cost per unit of energy. As the switch from the use of coal fired boiler to the use of natural gas was one-time off operation, the Group doesn't have the quantitative measurement of CO<sub>2</sub> emission. Our operation has not been affected from the change of use of natural gas from coal-fired boilers.

## TRAINING AND EDUCATION FOR EMPLOYEE

Training and education are necessary to equip our employees with the knowledge and skills to perform work safety without endangering the lives of themselves or their colleagues.

Internal training courses are provided to all employees and on-site hands on practice 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. It is compulsory for employees to attend safety training courses to build and maintain a safe working environment and culture.

The following training remained compulsory for employees and are monitored by the Human Resource Department:

- Good manufacturing process (GMP);
- HACCP system – quality control;
- FSSC22000 Food safety and quality management system;
- Linyi county safety supervision bureau safety training; and
- Concentrated apple juice processing procedures and related knowledge.

All our employees were subjected to an annual performance review to discuss their job performance and career goals which training hours is of indicators in the annual performance review. In FY2019, we have met our targets of an average of 25 training hours per employee and the actual average training hours per employee is 25.02 hours. In the financial year ending 30 June 2020 (“FY2020”), we aim to provide an average of 26 training hours per employee in order to enhance the employees’ skills and knowledge.

## QUALITY AND SAFETY ON CONCENTRATED JUICE

China has become the biggest producer and exporter of fruit juice concentrate. Continuous development and improvement efforts are carried out based on customer satisfaction, legal requirements, food safety and quality management system.

In China, the government 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.

Key factors that are to be tested for the concentrated juices, as shown below:

- Acidity
- Microorganism
- Pesticide Residue
- Turbidity
- Patulin

The Group continue to comply with several food safety standard and guidelines, such as the US FDA standards, ISO quality and HACCP guidelines. With regards to the set standards and guidelines, we are able to develop preventive controls and identify potential food safety risk which result in approaches to mitigate the risks.

The Group has not breached any health and safety related regulations in FY2019. There were also no fines or non-monetary sanctions for non-compliance with regulations. In FY2020, we target to maintain zero safety related incidents.



## GRI CONTENT INDEX

| GRI Standards Disclosure Reference | Disclosure  | Section  | Page Reference           |
|------------------------------------|---|--|--------------------------|
| <b>Organizational Profile</b>      |   |  |                          |
| 102-1                              | Name of the organization                                      | About the Group  | Page 2 - 4               |
| 102-2                              | Activities, brands, products and services                     | About the Group  | Page 2 - 4               |
| 102-3                              | Location of headquarters                                      | About the Group  | Page 2 - 4               |
| 102-4                              | Location of operations  | About the Group  | Page 2 - 4               |
| 102-5                              | Ownership and legal form                                      | About the Group  | Page 2 - 4               |
| 102-6                              | Markets served  | About the Group  | Page 5 - 6               |
| 102-7                              | Scale of the organization                                     | About the Group<br>Operation and<br>Financial Overview | Page 2 - 4<br>Page 5 - 6 |
| 102-8                              | Information on employees and other workers                    | Our people   | Page 6                   |
| 102-9                              | Supply chain  | Operation and<br>Financial Overview                    | Page 5 - 6               |
| 102-10                             | Significant changes to the organisation and its supply chain  | About the Group  | Page 2 - 4               |
| 102-11                             | Precautionary principle or approach                           | Sustainability Governance                              | Page 8                   |
| 102-12                             | External initiatives  | None   | -                        |
| 102-13                             | Memberships of associations                                   | None   | -                        |
| <b>Strategy</b>                    |   |  |                          |
| 102-14                             | Statement from senior decision-maker                          | Board Statement  | Page 1                   |
| <b>Ethics and Integrity</b>        |   |  |                          |
| 102-16                             | Values, principles, standards and norms of behaviour          | About the Group  | Page 2 - 4               |
| <b>Governance</b>                  |   |  |                          |
| 102-18                             | Governance structure  | Governance Structure<br>Sustainability Governance      | Page 7<br>Page 8         |
| <b>Stakeholder Engagement</b>      |   |  |                          |
| 102-40                             | List of stakeholder groups                                    | Stakeholder Engagement                                 | Page 9                   |
| 102-41                             | Collective bargaining agreements                              | None   | -                        |
| 102-42                             | Identifying and selecting stakeholders                        | Stakeholder Engagement                                 | Page 9                   |
| 102-43                             | Approach to stakeholder engagement                            | Stakeholder Engagement                                 | Page 9                   |
| 102-44                             | Key topics and concerns raised through stakeholder engagement | Stakeholder Engagement                                 | Page 9                   |

FY2019 Sustainability Report – Zhongxin Fruit and Juice Limited

| Reporting Practice                  |   |  |              |
|-------------------------------------|---|--|--------------|
| 102-45                              | Entities included in the organisation's consolidated financial statements                     | Group Structure                          | Page 7       |
| 102-46                              | Defining report content and topic boundaries  | About the Group                          | Page 2 - 4   |
| 102-47                              | List of material topics   | Materiality Assessment                   | Page 10      |
| 102-48                              | Restatements of information   | None                                     | -            |
| 102-49                              | Changes in reporting  | None                                     | -            |
| 102-50                              | Reporting period  | About the Group                          | Page 2 - 4   |
| 102-51                              | Date of most recent report  | Operation and Financial Overview         | Page 5 - 6   |
| 102-52                              | Reporting cycle   | About the Group                          | Page 2 - 4   |
| 102-53                              | Contact point for questions regarding the report  | About the Group                          | Page 2 - 4   |
| 102-54                              | Claims of reporting in accordance with GRI Standards  | About the Group                          | Page 2 - 4   |
| 102-55                              | GRI Content Index   | GRI Content Index                        | Page 15 - 16 |
| 102-56                              | External assurance  | None                                     | -            |
| Management Approach                 |   |  |              |
| 103-1                               | Explanation of the material topic and its boundary  | Materiality Assessment                   | Page 10      |
| 103-2                               | The management approach and its components  | Materiality Assessment                   | Page 10      |
| 103-3                               | Evaluation of the management approach   | Materiality Assessment                   | Page 10      |
| Topic-Specific Standards            |   |  |              |
| GRI 306: Effluents and Waste        |   |  |              |
| 306-1                               | Water discharge by quality and destination  | Effluents Management                     | Page 11 - 12 |
| GRI 404: Training and Education     |   |  |              |
| 404-1                               | Average hours of training per year per employee   | Training and Education for Employee      | Page 13      |
| GRI 416: Customer Health and Safety |   |  |              |
| 416-2                               | Incidents of non-compliance concerning the health and safety impacts of products and services | Quality and Safety on Concentrated Juice | Page 14      |