

Sustainability Report 2019

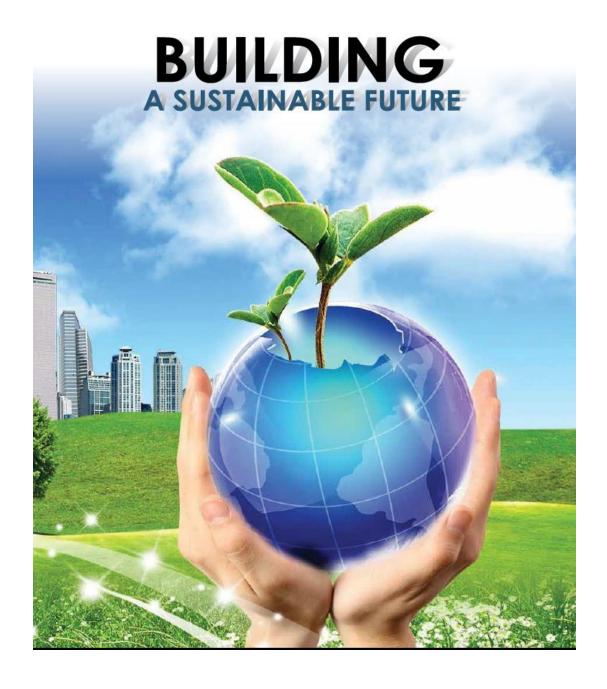


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This sustainability report has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "Sponsor"). This sustainability report has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "SGX-ST") and 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 Ms Lee Khai Yinn (Telephone number: +65 6232 3210) at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.

Board Statement

Far East Group Limited ("Far East", and together with its subsidiaries, the "Group") is pleased to publish our thrid sustainability report (the "Report"). Sustainability considerations are key to our long-term business strategy and we appreciate the opportunity to present our achievements and ambitions.

The board of directors (the "Board") is responsible for the oversight of the sustainability agenda and strategy and has been involved in the determination of the material factors. The management has formed a sustainability council which works under the guidance of the Board to ensure that sustainability practices are executed across the different business units. With the assistance of the sustainability council, the Board has determined the Environmental, Social and Governance ("ESG") factors that are material for the continuity of the Group's business.

Our material factors are categorised into three key segments:

- Environment
- People
- Marketplace

Environment

The refrigeration and air conditioning industry can play a significant role in reducing its impact on the environment. The phasing out of harmful gases and development of energy efficient products are two areas which can yield mutual benefit to both our business and society at large, and the Group has been working tirelessly towards these objectives.

People

We recognise that our people are key drivers for our success. We place great emphasis in nurturing them by enhancing their training and development and taking care of their health and safety.

Marketplace

It is our responsibility to exceed expectations of our stakeholders in the market. We strive to do so by delivering high quality and safe products, maintaining financial stability and tackling the risk of cyber security through robust policies and measures.

We would like to thank our staff for their hard work in contributing to this Report and another successful year for the Group.

Board of Directors

30 May 2020

About this Report

Scope and boundary

This Report covers our sustainability practices and performance for the financial year ended 31 December 2019 ("FY2019").

This Report has been prepared in compliance with Rules 711a and 711b of the SGX-ST Catalist Rules, and in accordance to the Global Reporting Initiative ("GRI") Standards: Core Option, which is a globally recognised sustainability reporting framework and its reporting principles are relevant to the Group's business.

The Report identifies the material ESG factors to the Group. The policies, practices, performance and targets follows on from our last year's report, reporting on our material factors covering primarily the Group's operations in Singapore. We aim to expand this coverage to other geographies in the future as we mature in our reporting journey.

External assurance and feedback

We have not obtained external assurance for this Report, but may consider to do so in future. We are fully committed to listening to our stakeholders and value your feedback. Should you have any questions about this Report, please feel free to reach us at info@fareastref.com.sg.

Corporate Profile

About us

Far East is headquartered in Singapore and listed on the Singapore Exchange ("SGX") since 8 August 2011. We are one of the pioneers in the refrigeration and air-conditioning businesses in Singapore. We have built up a strong network to become a comprehensive provider of refrigeration and air-conditioning systems and products for the Heating, Ventilation, Air-conditioning and Refrigeration ("HVAC&R") industry.

Supply chain, activities, brands and products

Far East provides end-to-end solutions in cooling and refrigeration ranging from consulting to after-sales support, and is principally engaged in the sourcing and distribution of a wide range of agency products as well as the manufacturing and distribution of heat exchangers and condensing units under its proprietary brand, "Eden".

Far East has a strong customer base comprising distributors, dealers as well as refrigeration and air-conditioning contractors. Its products are used in a diverse range of industries such as hypermarkets, cold store distribution centres, food processing and catering facilities, hotels, hospitals, food and beverage establishments, convenience stores, petrol stations, marine vessels, oil rigs and barges.

Markets served

The Group has subsidiaries in Singapore, Malaysia, Hong Kong, Vietnam, Indonesia, Myanmar and China, as well as distributors in the Southeast Asia ("SEA") region and also in other countries such as Mauritius, Australia, Turkey and Sri Lanka. Far East is a leading distributor of commercial and light industrial refrigeration systems and products in the SEA region, with manufacturing facilities in China. On 16 April 2019, Far East completed its acquisition of M-Tech Air-Con & Security Engineering Pte Ltd, and since then, takes on air-conditioning contracting works in the Air-conditioning and Mechanical Ventilation ("ACMV") industry as well.

Sustainability at Far East Group Limited

Our vision and values

Sustainability considerations have always been rooted in the values of Far East.

The Group's vision is to be a highly motivated and inspired team, working in unison towards leadership, striving for excellence through quality and technology and being ever sensitive and responsive to its employees, customers and the society in which we live in.

We are cognisant that our stakeholders are increasingly taking notice of the ESG impact of our activities, and we view this as an excellent opportunity to assess our impacts from the lens of sustainability and structure our efforts based on the approach of materiality.

Stakeholder engagement

We place great value on our diverse stakeholders and are committed to engage with them regularly. By maintaining an open dialogue with all of our stakeholders, we are better able to understand and align their needs in our business decisions. We identify and prioritise stakeholders based on their dependence and influence on our business.

Key Stakeholders	Frequency	Modes of Engagement	Topics raised	Our Response
Employees	- Annual - Ad hoc	 Appraisals Exit interviews Casual open feedback Internal meetings and discussions 	 Welfare and benefits Health and safety Training and development 	Refer to People segment of this Report
Investors	- Biannual - Ad hoc	- Shareholders' and investors' meetings - Corporate announcements and circulars - Half-yearly results announcements - Annual reports - Email and phone communication - Website at http://www.fareas tgroup.com.sg	 Financial stability Long term value Growth and markets strategy Corporate governance and sustainability practices 	Refer to Marketplace segment of this Report and our annual report
Customers	- Annual - Ad hoc	 Customer feedback survey Conferences and industry sessions Individual meetings Email and phone communication 	 Product quality and safety Energy efficient products Competitive pricing 	Refer to Marketplace segment of this Report
Regulators/ Government	- Regularly	- On-site inspections - In-person meetings	 Compliance with environmental regulations Labour standard compliance 	Refer to Environment and People segments of this Report

Key Stakeholders	Frequency	Modes of Engagement	Topics raised	Our Response
			- SGX listing requirements	
Suppliers	- Ad hoc	 Conferences and industry sessions In-person meetings Vendor assessments 	- Product quality - Environmental requirements	Refer to Marketplace and Environment segments of this Report

Materiality assessment

Our materiality assessment was performed in line with the GRI reporting principles to identify the material factors relevant to the Group's activities. We have collated feedback from stakeholders and reviewed sustainability factors identified by our peers to short-list potential material factors. We further engaged our employees through a survey to understand what areas they consider having the greatest impact on our environment, people and society. We have identified the following factors which are material to the Group, which have been prioritised and validated by the Board through the discussions with the management:

Material Factor	Corresponding GRI Standards	Impact boundary			
Environment					
Environmental compliance	Environmental compliance	All facility operations			
Green products	Materials	All facility operations			
	Peop	le			
Human capital development	Employment Training and education	Office and facility employees			
Occupational health and safety	Occupational health and safety	Employees and sub-contractors			
	Marketj	place			
Product quality, health and safety	Customer health and safety	Suppliers and facility operators			
Cyber security	Customer privacy	Office operations			
Financial stability	Economic performance	All operations			

Governance of sustainability

At Far East, we have established a sustainability council in order to oversee the development of the sustainability strategy, sustainability performance and monitoring, as well as the production of this Report. In consultation with our Board, the sustainability council organises information provided by operational teams in order to develop and evolve our sustainability strategy. The sustainability council is led by our Chief Financial Officer ("CFO") and includes senior management executives from different teams including production and logistics, sales, and human resources, amongst others.

Board of Directors

Sustainability Council (Led by CFO)

Functional Teams

Human Resources, Product Quality, Legal, Finance, Health, Safety and Environment, Sales

Environment

Environmental compliance

Why is it material

The HVAC&R industry can play a significant role in achieving the objectives of the Montreal Protocol (1987) which aims to protect human health and the environment by systematic phasing out of the production and consumption of ozone-depleting substances . Various other global and national commitments towards climate change are disrupting businesses across the industry value chain. We view these requirements as opportunities to evolve, and be innovative and adaptive to the changing demands of the market.

Management approach

We are constantly working towards the National Environment Agency's targets for phasing out ozone-depleting gases from our products. For example, we do not sell chlorofluorocarbons refrigerants and have developed a phased plan to meet these requirements in accordance with the regulations of the countries we operate in.

In addition, whenever we perform a retrofitting due to a change in refrigerants, we advise our customers to use recovery units instead of letting out the gases into the environment. Furthermore, we actively participate in seminars and conferences to educate end-users on environmental concerns with phased-out refrigerants and the available alternatives in the market.

We follow similar environmental compliance standards across other countries of operations. In our manufacturing facility in China, we do not allow spray painting and are mindful of local compliance requirements when we recover raw material and dispose of chemical products.

Performance

We have not had any non-compliance with environmental laws and/or regulations, and have not received any significant fines and/or non-monetary sanctions in FY2019 (FY2018: Nil). As at the end of FY2019, most of the new gases can be used in our equipment for commercial applications.

Targets

We strive to meet and maintain our roadmap for phasing out of refrigerant gases and maintain our zero record for environmental-related fines in FY2020.

Green products

Why is it material

The refrigeration and air-conditioning industry can create a significant impact on global energy consumption and emissions.

Management approach

Our approach is based on developing and distributing greener products, as well as creating awareness for our users on the potential benefits of transitioning to cleaner systems.

With a long-term vision, we closely monitor global regulations so as to be prepared for the transition in the market. We are moving towards a greater mix of more energy efficient products with our in-house Green Programme, which is central to our innovation and product development strategy. The next phase of our product development is in the area of using environmentally friendly natural gas such as ammonia and carbon dioxide as refrigerants to support the building of larger cold storages and logistics warehouses which will enhance food security.

In addition, our product offerings combine different elements including equipment, controls and system designed to offer a comprehensive solution for improving energy performance and efficiency. Gradually, we will also be selling products that help to monitor the consumption of energy.

We recognise that we can enhance our impact by spreading awareness and knowledge to our customers and the market. Within our service centre, we have an innovation centre where we display and promote high energy efficiency products as well as smart monitoring systems.

Performance

In FY2019, we continued with our studies to lower wastage and redundancy of materials by performing the following:

1. Combination and merging of product models

We continued to assess our lines of products and product models for the feasibility of combining some models of products while not eliminating the range of products nor compromising the quality of energy efficiencies of the products that we offer. In FY2019, we have combined our FEM and FEME low temperature chiller and mid temperature G5 chiller ranges, reducing the number of models by approximately 17% and 15% respectively.

2. Smart monitoring of efficiencies

In FY2019, we have partnered with Schneider Electric to be badged as their EcoExpert for Refrigeration and Building Management System ("BMS"). We are the first to be badged in refrigeration in Asia and look forward to expanding the services to our customers. In addition, we also use Eliwell products and monitoring systems to help our customers track their equipment's performance.

Targets

We aim to continue improving the energy efficiency of our products and increase the number of energy efficient products as part of our product portfolio, as well as minimise wastage and redundancy in materials. The use of smart monitoring systems and technology will help to enhance efficiencies and reduce wastages.

People

As a relatively small organisation operating in the distribution and manufacturing space, it is vital for us to maintain good succession planning and high retention of our staff. We strive to meet this objective by providing training development opportunities and ensuring safety of our employees at the workplace.

Headcount of employees at our Singapore office as at 31 December 2018 and 2019

	Male		Fen	nale	Total	
	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019
Permanent Contract	37	38	16	17	53	55
Temporary Contract	0	0	0	0	0	0
Full-time	37	38	16	17	53	55
Part-time	0	0	0	0	0	0

Human capital development

Why is it material

Human resource has been a rising concern in our industry over the last few years. This exposes our business to the risk of finding the right talent and ensuring a sound succession roadmap. High turnover rates can also lead to rising training costs and a decline in overall productivity and morale of the organisation.

Management approach

Attracting the right talent, nurturing their career growth and providing them with the right benefits and incentives are some actions that can create a more stable, equipped and inspired workforce.

Training and development

Training and development is a core focus of managing our human capital. Individual development plans comprising training needs are created for all employees at the department level, and are monitored as part of the annual appraisal cycle. Induction training is offered to all new employees and skills-based training is offered on a need basis. Some of the key trainings attended by employees during FY2019 include:

- Solidworks Essential, StarMEX and Schneider Programme for Sales team
- Schneider EcoExpert Badging (Refrigeration and BMS)
- SAP Refresher Course for the Finance team
- FRS 115: Revenue from Contracts with Customers Construction Contracts
- Info-Tech System Training for all staff on the implementation of a new HR System
- AWS Certified SysOps Administrator for IT team
- SMARTX Engineering & Ecostructure for R&D team

Benefits and wellness

We offer our employees with necessary health and insurance benefits. In FY2019, we have improved staff benefits by allowing reimbursements of staff claims for certain treatment sought at traditional Chinese medicine clinics approved on a case-by-case basis. In addition, our employees have the provision for flexiwork which enables them to maintain a work-life balance. We celebrate our success together with annual dinners held and in FY2019, introduced new staff recognition awards for staff who had been exemplary in their contributions in day-to-day work which sets a good example for others to follow, amongst other company awards, and build bonds through sports events such as cycling.

Performance

The average training hours in FY2018 and FY2019 are as follows:

Gender				
Year	FY2018	FY2019	FY2018	FY2019
Average Training Hours	6.20	4.99	6.12	9.32

Employee category	Average training hours		
	FY2018	FY2019	
Director & C-Level	9.33	7.00	
Manager	14.86	1.68	
Executive/supervisor	10.11	12.5	
Assistant/general worker	0.70	2.34	

In comparison, the average training hours for Managers seemed to have decreased drastically. FY2018 was an exceptional year where the training hours were very high due to the renewal of both ISO and OHSAS standards where many Managers went through training to be aware of the new standards and requirements. In addition, there was also a training programme in Sales which was organised for the Group where all Managers were required to attend.

Our new hire and turnover rates are as follows:

FY2019	New employee hires (number)		Rate of employee hire (%)
Age (Years)	M	F	
Less than 30	2	3	9
Between 30 and 50	7	2	16
More than 50	1	0	2
Total	10	5	27

In FY2019, majority of the new hires are male, and they are mainly for IT support, sales engineer and general workers. The female staff who joined in FY2019 are hired in support functions in sales, procurement and general cleaning support.

FY2019	Employee turnover (number)		Rate of employee turnover (%)
Age (Years)	M	F	
Less than 30	0	0	o
Between 30 and 50	5	3	15
More than 50	2	1	5
Total	7	4	20

Out of the 11 employees who left their jobs, 2 were hired in the same year but left due to expectation mismatch, 2 employees were terminated due to misconduct and 2 left due to ending of contract. The rest left for either better prospects or personal reasons.

FY2019	Rate of new employee hire and turnover (%)		
	M	F	
Rate of new employee hire	18	9	
Rate of employee turnover	13	7	

Targets

We continue to review our wellness and benefits programme, and align our human resource policies across the different entities in the Group in FY2020. The revised HR policy will be implemented in FY2020. The Group constantly reviews the benefits to the staff and aim to benchmark against market norms.

Occupational health and safety

Why is it material

Given the nature of our operations, the health and safety of our staff, drivers and workers can be at risk. We strive to make sure that our efforts to mitigate this risk remain uncompromised. Not only is this a core part of our values, but any failure on our part can result in severe reputation damage to the Group.

Management approach

We abide by the highest standards in the industry and have obtained the OHSAS 18001 (Occupational Health and Safety Assessment Series) certification on safety. All employees and workers go through the necessary safety trainings upon joining the Group. We also have a dedicated on-site safety officer along with an outsourced fire safety manager who conduct regular tool box meetings, and defibrillator and fire drills to ensure that all measures are in place. The safety officer conducts inspections of all fire safety equipment before use and keeps daily records to ensure maintenance is done and the equipment is safe to operate.

Performance

As a result of these measures, none of our employees and workers has had any recordable, high consequence or fatal injuries in FY2019 (FY2018: Nil). By changing certain manual processes, such as the manual drilling of holes in fins to automated ones, we have also lowered the staffs' exposure to work injuries. In FY2019, we have re-organised our assembly area to allow the respective staff to be more efficient and at the same time reduced their chances of injuries with fewer trips to draw materials and parts.

Targets

We will continue to develop, roll out and improve on safety culture campaigns to advocate and educate our employees on best safety practices.

Marketplace

Product quality, health and safety

Why is it material

Maintaining the quality of our products is critical in the competitive industry that we operate in. Any issues regarding the functionality of our products or any harm to the health and safety of our customers on product usage can result in a significant loss of customers.

Management approach

All our products go through stringent quality control procedures before reaching the market. We design and sell products that have adequate safety features, such as certified pressure vessels on our condensing units and systems to minimise risks to customer health and safety. Most of our products are covered by warranty to provide assurance to our customers on the quality of our products.

Performance

We have not had any non-compliance with regulations and/or voluntary codes concerning the health and safety impacts of our products in FY2019 (FY2018: Nil).

In FY2019, we have improved the design of the end plates of our higher-valued heat-exchangers to allow for smoother finish which eliminates burrs from the sheet metal as well enhances its strength to hold the weight of the heavier metal pipes. This significantly reduces the chances of the pipes being accidentally scratched or cut which may result in refrigerant leakages. This improvement also enhances our product reliability and performance.

Targets

We will continue to incorporate and improve health and safety considerations in our products and strive to maintain zero incidents of non-compliance in FY2020.

Cyber security

Why is it material

We hold a large amount of data of our customers, distributors and suppliers. This data includes both confidential and personal information. Given the rising threat of cyber attacks, this is an area of risk that we take very seriously. Any breach of our systems can result in reputation loss, as well as financial liabilities.

Management approach

We are guided by the Personal Data Protection Act in Singapore to protect the privacy of our customer data. Our data is stored in an ERP system which runs on a cloud server and is protected under network security which only our own employees can access.

Performance

We have not received any substantiated complaints concerning breaches of customer privacy in FY2019 (FY2018: Nil). We have proactively engaged a professional external party to conduct penetration tests to check the vulnerability of our IT systems to provide the management with an assessment of areas for improvement in terms of our IT hardware, software and systems. In FY2019, we have upgraded our servers and IT equipment to secure office network from intruders, implemented security solutions for network, email system and end-point access, established data loss prevention procedures and improved on our

disaster recovery plans. These initiatives aim to enhance security and improve confidence for our customers.

Targets

We strive to continue being vigilant in our review of our risk exposure to cyber-attacks and taking the necessary steps to upkeep our system security.

Financial stability

Why is it material

Financial stability can be a risk to our business and if not managed adequately, it can impact the economic performance of the Group. If the economic value that we generate is sacrificed, it can adversely impact the payout to our stakeholders, including dividends to our investors, salaries to our employees, operating expenses to suppliers, taxes to government, and strategic investments to communities.

Management approach

We have a strong finance team monitoring the financial health of the Group closely. Not having a fixed dividend policy allows us to be more adaptive and less vulnerable to market changes. Our financial policies and procedures are reviewed regularly to keep up-to-date with risk management and control. Audits on the policies are performed by internal and external auditors who are independent and provide us with advice for continued improvement and safeguards.

Performance

FY2019	SGD ('000)
Economic value generated (Sales)	70,609
Economic value distributed:	
- Salaries and wages	14,456
- Taxes	393
- Operating costs	8,149
 Community investments 	28
Economic value retained	47,583

In FY2019, we continue with our community investments with approximately \$28,000 in donations.

Targets

We aim to continue our efforts in our community investments.

Our Memberships, External Initiatives and Charters

ASHRAE (American Society of Heating, Refrigerating and Air-Conditioning Engineers) Chapter Singapore and Indonesia

OHSAS 18001

BizSAFE Star

Singapore Chinese Chamber of Commerce and Industry

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