

五谷磨房

Natural Food International Holding Limited
五谷磨房食品國際控股有限公司

(Registered by way of continuation in the Cayman Islands with limited liability)

Stock code : 1837



Environmental,
Social and
Governance Report
2018

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Environmental, Social and Governance Report

ABOUT THE REPORT

Our Vision for sustainability

As a natural health food company in China, Natural Food International Holding Limited (“We” or “the Company”) is keen on improving our work practice to the high standards of corporate governance, environmental and social responsibility. We recognize the importance of integrity, transparency, professionalism and accountability as foundation of creating sustainable value for all our stakeholders.

Our multi-dimensional approach to sustainability is driven by our core values to deliver quality products with caring service and supported by a profound framework of practice guide that extends across our operations, continuous quality assessment, human resources, risk and control, and investor relations. Our commitment in social responsibility is further supported by our many efforts on behalf of our customers, employees, and communities.

Compliance and Scope

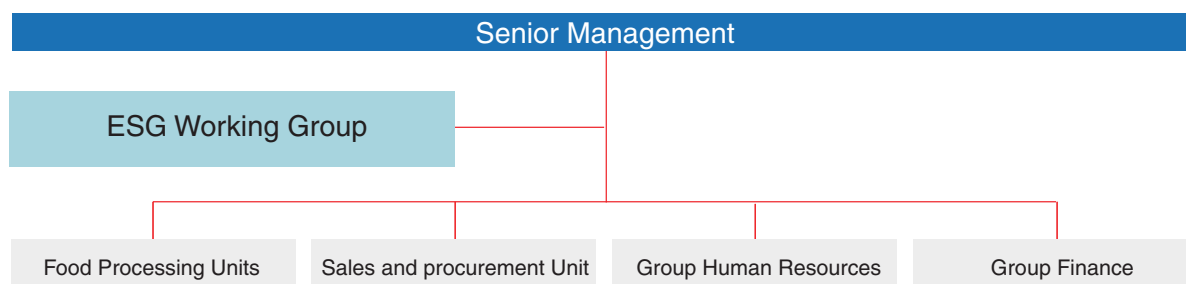
We prepared this Environmental, Social and Governance (“ESG”) report with reference and in compliance to the provisions set out in the ESG Reporting Guide Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.

The Board of Directors has the overall responsibility for ESG strategy, materiality assessment and reporting of the Company and its subsidiaries (collectively as “the Group”). This ESG report covers the period from 1 January 2018 to 31 December 2018 and mainly focuses on the ESG issues and data collection and reporting relating to the headquarter and our major production facility located at Tuanfeng county of Hubei.

The Board is committed to enhancement of the Group’s ESG commitments and data collection systems, with a vision to further improve the quality of our ESG initiatives and reporting.

Sustainability Committee

We endeavor to promulgate sustainable development and have established a Sustainability Committee comprising senior management from legal, human resources, and finance department to oversee the Group’s ESG related matters. Under this committee, we have established an ESG Working Group which is responsible for driving our ESG initiatives, collecting and calculating ESG data and Key Performance Index (“KPI”) and reporting of ESG-related matters across our major businesses and operations.



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The Sustainability Committee is responsible for reporting our ESG matters and progress to the Board of Directors on a regular basis.

Stakeholder Engagement

We believe that trust is built on effective communication. Ongoing interaction with stakeholders is an integral part of our day to day operations. Our communication channels such as comments left in our social platform, meetings, interviews enable stakeholders to express their ideas, opinions and suggestions. Our identified stakeholders include investors, employees, customers, suppliers, business partners, media, government agencies, regulators and the community.

ESG Materiality Assessment

In preparation for this report, ESG issues (categorized into those relating to the Operating Practices, Employment Practices, and Environmental Performance) were collated from industry benchmarking and reviewed by internal stakeholders. Responses were analyzed and our most material issues were validated by the Sustainability Committee to ensure the rationality, balance and completeness of this ESG report.

Material issues that are concerned to the Group



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OPERATING PRACTICES

Supply Chain Management



As a natural health food company in China market, we source raw materials within China and from overseas.

Systematic supply chain and good work practices are essential to our long-term sustainability and business performance. We endeavor to provide customers with products and services of the highest quality and regularly review each supplier's and business partner's product standards to ensure they follow safety standards and regulatory requirements.

We are offering multiple product categories and over 100 Stock Keeping Unit ("SKU"). The Group applies automation management systems to enable a quality assurance and traceability of our supply chain and food safety. Our robust technology infrastructure and stringent quality control measures drive our operational excellence, ensure product quality and support the rapid and successful expansion of our sales network across China.

With comprehensive transportation system in place, we deliver our products by trucks from our production facilities to customers' warehouse or designated locations. We outsource the logistics to various contracted third-party logistic service providers to enhance the efficiency and diversify operational and compliance risks. While these third-party logistic service providers bear the liabilities for any damage or loss during transportation, we regularly review their operational and compliance aspects.

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Product Safety



Food quality and safety come first.

Our workforce is responsible for vigilant of any quality concerns and responsive to customer feedback in compliance to all regulatory requirements. These expectations are set out in our policies and practices.

All our production facilities obtain SC Food Production Licenses issued by Food and Drug Administration of PRC. We are also certified to FSSC22000 Food Safety System. These licenses and certifications entrust our quality control system and production process to the local and international standards.

Procurement is our first defense.

We purchase raw materials from accredited suppliers who have passed our quality and reliability assessment. The selection of suppliers and subcontractors is based on background, pricing, service, quality, reputation, and after-sales support, as well as capacity to ensure stable and adequate supply.

Raw materials suppliers are required to be in compliance with the related quality, hygiene and sanitary regulations and are required to submit corresponding independent third-party assurance report and/or the results of laboratory tests of their products to us at inception or when requested.

We established guideline on inspection, sampling, specifications and testing requirement where our employees follow through before accepting incoming raw materials. Sub-standard raw materials would be returned.

To manage the risks of supplies in terms of climate changes, harvest, price, quality, traffic, we have established diversified suppliers base for each major type of key raw materials. In the past 3 years (2016, 2017, 2018), the aggregated amount of supplies from our top 5 suppliers are below 30% of our annual raw materials purchase cost. In overall, we believe we have established a reliable source comparable alternative within China and other foreign countries.

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Systematic, consistent and regulated production process give a big hand to promote product quality.

Comprehensive inspection is performed by our quality control department throughout production process to promote proper operation and zero contamination. Pest control equipment are installed in both production facilities and warehouses.

Finished products are properly packaged and stored in designated zones according to their manufacturing dates and product categories. The storage area is well-ventilated, temperature and humidity controlled.

Customer Service



We are committed to providing the good service experience to our customers and conduct regular customer service evaluation to continually improve our performance. In the event of any consumer concerns, our customers service department follows up directly with consumers in a timely manner, enabling us to take requisite precautions to prevent related issues from reoccurrence.

We set out policy in compliance of goods and services with the Consumer Protection Law and Product Quality Law of PRC. The policy attaches great importance to protecting the privacy of our customers where only defined employee can access to portion of customer's data.

Accordingly, the Group has established stricter guidelines, to ensure the Group provides precise product descriptions and accurate information, namely: (1) comprehensive review on existing product labels; (2) joint departmental approval on upcoming items; (3) engage external professional to provide professional opinion; (4) reference to external laboratory inspection result; (5) periodic review current practice with industry norm and regulations update.

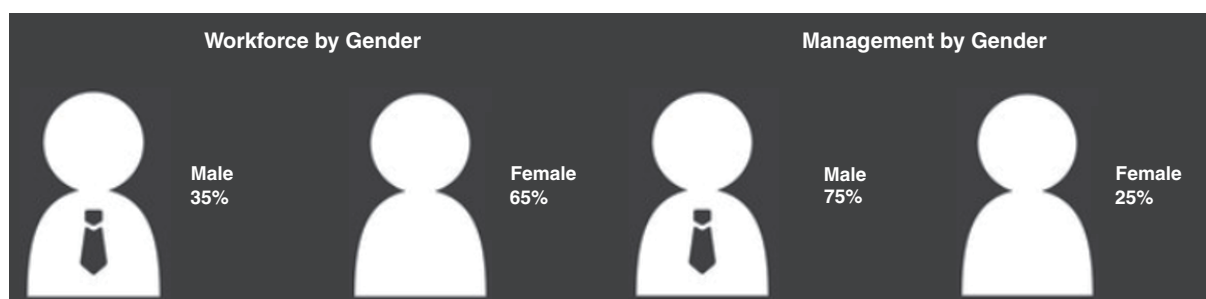
We prohibit any forms of misrepresentation in marketing materials or exaggeration of offerings.

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EMPLOYMENT PRACTICES

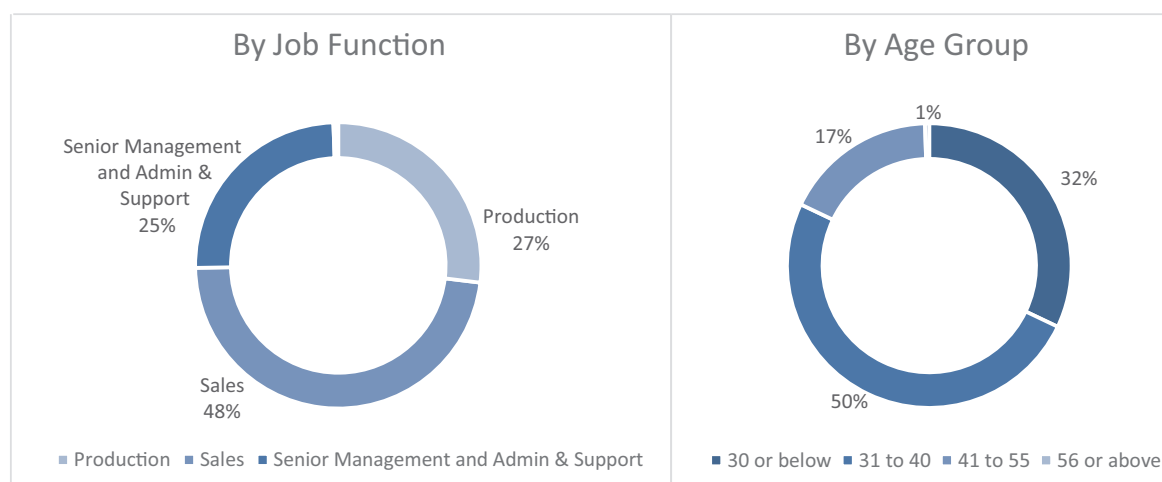
Diversity and Equal Opportunity

Employees are regarded as the Group's greatest asset and the core of its competitive advantage. We do not discriminate against gender, age, race, or family status. Our employees have standardized working hours, and enjoy paid leave, maternity leave, sick leave, public holidays and designated rest periods in accordance with national laws and regulations. We resolutely prohibit the use of child and forced labour in the workplace and enforce this by reviewing the identification of personnel in strict compliance with governing laws and regulations. Any material non-compliance with our protocol may result in summary dismissal. Illustrated below our workforce diversity as at 31 December 2018: -



Employee structure

In 2018, we have over 1000 full time employees. In the course of our operation and industrial characteristic, front line staff tend to come and go simultaneously. In the review year, the Group have 615 joiners and 588 leavers. Illustrated below our employee composition as at 31 December 2018: -



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The Group has developed an employee handbook for regulating recruitment, promotion, discipline, working hours and vacations. The Human resources department is responsible for ensuring that our staffs has good understanding of the contents of the handbook. We are providing fair opportunities and building a platform for growth and development. Our employment practices are well written according to relevant PRC law and regulations, namely Labour law, Production Safety Law and Prevention and Control of Occupational Diseases.

We generally recruit our employees through placing advertisements in the open market with reference to factors such as their experience, qualifications and expertise required for our business operations. We determine the employee's remuneration based on factors such as qualification, contribution and years of experience. We regularly carry out staff evaluation to assess their performance. We have also obtained legal advices and enhanced our internal controls in relation to our contributions to social insurance premium and housing provident funds, such as assigning our finance and human resource department to monitor the status of monthly payments.

In the Review Year, the Group follows relevant laws and regulations in relation to staff compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, welfare and other staff benefits, in all material aspects.

Employee Benefits and Welfare

To attract, motivate and retain talented employees, we regularly review our compensation and benefits programs, ensuring they are competitive with the external market and internally equitable among colleagues. Annual reviews are conducted to exchange comments, offer adjustments and/or promotions to employee which are commensurate with their performance.

Understand that the importance of relationship between employee wellness and engagement, we regularly organize social and recreational activities for employees to enrich work and social life.



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Training, Education and Development

Talents development and retention are fundamental to our continued success. Our training is working through combination of orientation in-house training and on-the-job training as to equip our staff with operational abilities and improve their mastery of the work thereafter. We offer continuing education programs in place to cultivate our employees' professional skills and capabilities. For example, we launched "Wugu Mofang Business Administration Class" at TsingHua University to groom our midlevel to senior managers and to enhance their professionalism and leadership skills.



We recognized the contributions of our employee and provide career development opportunity. During the year, there are 45 staff being internal promoted involving middle and senior management positions comprising of 56% females.

Occupational Health and Safety

The Group has established a series of work safety policy and standard operating procedures. Our policies outline our commitment to identify, assess and eliminate workplace-related dangers, and to provide information, training and protective equipment to ensure employees' safety. We conform to all applicable local health and safety regulations. In addition, the Group provides occupational safety education and training to employees to enhance their safety awareness.

The awareness of our employees is critical to reducing accidents. The Group provides work protocol and safety guideline. To provide and maintain a safe and clean working condition for employees, the Group provides appropriate and adequate tools for employees to operate effectively, posts safety and operational instructions in conspicuous places, minimizing the possibilities of significant occupational safety and health impacts.

The Group will continuous increase its employees' occupational health awareness in workplace to minimize the risk of safety hazard.

In the Review Year, the Group follows relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards, in all material aspects.

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Anti-corruption



The Group realizes the importance of staff integrity.

We strive to promote business activities within the Group are carried out in good faith and in ethical and lawful manner. The Group has established internal controls, authority limits and segregation of duties for our major processes, assigned senior management of finance department to design, implement and revise the internal controls regularly and set up an internal audit department to review and monitor the related measures independently.

We prohibit all forms of bribery, extortion, fraud and money laundering and encourage reporting of non-compliance incidents or potential conflicts of interests to our senior management and/or independent internal audit function by our stakeholders. Any material non-compliance with our protocol may result in summary dismissal and/or court actions.

In the Review year, we follow relevant laws and regulations in relation to bribery, extortion, fraud and money laundering, in all material aspects.

Community Involvement



As a responsible corporation, the Group has been working towards to building a beautiful and healthy community and maintaining communication and interaction with the community to contribute to the development of the community. We are constructing our community related policy to written visualize our thoughts.



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ENVIRONMENTAL PERFORMANCE

We believe that quality living is about enriching lives today as well as caring for future generations, environmental protection is a fundamental part of our sustainable development. As a healthy food provider, we offer consumers a wider range of natural health foods. We concentrate our resource on managing our core operation (procurement, production and sales) by engaging external professional parties to take up auxiliary workflow (logistic) to enhance the overall efficiency.

Use of Resources

Our major resource consumption are raw materials in our food processing operation while the major source of GHG emissions emitted by the Group is the use of purchased electricity, LPG and water.

Reassessed work practices apply across our businesses to improve resource utilization, reduce our emissions and manage waste responsibly. With numbers of locations including warehouses, offices, and production units, we continually identify ways to improve energy efficiency by replacing energy intensive equipment, actively conserving resource and regularly assessing operating performance.

Consumption Management

We have outlined practical resource conservation measures for all staff including turning off lights, monitors and air conditioning when leaving the office, as well as maintaining optimal office temperature.

We are encouraging modern telecommunication system to avoid unnecessary travel arrangement; and encouraging employees to switch off IT devices, such as computers and monitors when not in use.

We have established policies which outline measures for employees to switch off engines for idle vehicles, advise drivers to plan routes to avoid heavy traffic and encourage employees to take public transportation when travelling locally.



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Waste Management

Emission generated by our operations primarily consist of oxides from vehicular exhaust, purchased electricity and water. In order to reduce our impact on the environment, we carefully monitor the fuel-efficiency of our in-house fleets. In our production plant, designated personnel are assigned to oversee the existing wastewater treatment facilities according to GB8978-1996 PRC discharge standard of water pollutants.

Regarding to hazardous waste (raw materials with metal content detected), our business units follow strict procedures for proper treatment, collection and hand hazardous waste over external hazard waste collectors.

Compliance Operation

Compliance operation always come first.

The operation policy and process comply with all relevant environmental laws and regulations in PRC during our daily operation including prevention and Control of Water Pollution, Prevention and Control of Environmental Pollution by Solid Wastes, Environmental Protection Law and Conserving Energy Law.

To improve our operation efficiency, our management team strictly monitor, manages and evaluate to make every possible improvement in our operation (efficient resource consumption, waste minimization, recycle and reuse promotion) .



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ENVIRONMENTAL KEY PERFORMANCE INDICATORS

Emission Type	Indicator	FY2018
Greenhouse gas ²	Direct emissions – Scope 1 ³ (tonnes CO ₂)	1,592
	Indirect emissions – Scope 2 ⁴ (tonnes CO ₂)	2,077
	Indirect emissions – Scope 3 ⁵ (tonnes CO ₂)	17,468
Exhaust gas	Sulphur Dioxide (SO _x) – tonnes	10
	Nitrogen Oxides (NO _x) – tonnes	2,109

Major resource consumed	Unit	Amount	Intensity ¹
Water – processing	tonnes	74,760	41.1
Electricity – processing	kWh	4,953,670	2,724.8
LPG – processing	unit	524,517	288.5
Paper	Kg	11,101	29.3
Packaging box and materials	tonnes	4,647	2.6

Notes to above table:

- Intensity is calculated by the emissions by the Group's revenue for FY2018 (approximately RMB1,818 million).
- GHG emissions data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, Appendix II: Reporting Guidance on Environmental KPIs" issued by the Hong Kong Stock Exchange.
- Major source of Scope 1 emission came from usage of LPG.
- Major source of Scope 2 emission came from usage of purchased electricity.
- Major source of Scope 3 emission came from processing fresh water and sewage by government departments.
- Hazardous waste means raw material with metal content which has been return to raw materials supplier or disposed where quantity immaterial to our operation and did not include in the scope of this report
- Domestic waste totals have been deemed immaterial to our operations and are not included in the scope of this report.

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APPENDIX 1: SEHK ESG REPORTING GUIDE INDEX

SEHK ESG Reporting Guide General Disclosures		Reference Section/ Remark	Comply or Explain
A. Environment			
A1 Emission	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.	Environmental Performance	Complied
KPI A1.1	The types of emissions and respective emissions data.	Environmental Key Performance Indicators	Complied
KPI A1.2	Greenhouse gas emissions in total, and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Key Performance Indicators	Complied
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable – total hazardous waste produced in operation were insignificant.	Explained
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Key Performance Indicators	Complied
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Use of Resources	Complied
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste Management	Complied
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials.	Consumption Management	Complied
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Environmental Key Performance Indicators	Complied

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SEHK ESG Reporting Guide General Disclosures		Reference Section/ Remark	Comply or Explain
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental Key Performance Indicators	Complied
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environmental Key Performance Indicators	Complied
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable – we do not have problem in sourcing water in our operation.	Explained
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Environmental Key Performance Indicators	Complied
A3 The Environment and Natural Resources	Policies on minimizing the operation's significant impact on the environment and natural resources.	Compliance Operation	Complied
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Performance	Complied
B. Social			

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SEHK ESG Reporting Guide General Disclosures		Reference Section/ Remark	Comply or Explain
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment Practices	Complied
B2 Health and Safety	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety	Complied
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training, Education and Development	Complied
B4 Labour Standard	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.	Diversity and Equal Opportunity	Complied
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	Supply Chain Management	Complied

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SEHK ESG Reporting Guide General Disclosures		Reference Section/ Remark	Comply or Explain
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Safety	Complied
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.	Anti-Corruption	Complied
B8 Community Investment	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests.	Community Involvement	Complied