



HONG LEONG ASIA LTD.

SUSTAINABILITY REPORT 2017

SUSTAINABILITY REPORT

Board Statement

As we progress on our sustainability reporting journey, the Group has set in place systematic reviews of our business practices to assess the impacts on the environment and communities we operate in. In the long term, our focus on sustainability will place our Group in a better position to create long-term value for shareholders while taking into account the interest of the broader stakeholder community.

The Board has set a strategic direction to achieve this through good corporate governance, prudent financial management, upholding health and safety standards, limiting environmental impact, utilising resources efficiently, and engaging communities we operate in. At HLA, the Board sets the tone and direction for all sustainability efforts, supported by the Sustainability Committee. Together, we continually identify, manage and address ESG factors material to the business. This sustainability journey takes constant effort and we look forward to your continued support in creating a sustainable future for generations to come.

CEO's Message

I am pleased to present the Group's second sustainability report as part of the annual report. In the year since we published the first edition of our sustainability report ahead of the Singapore Exchange's ("SGX") reporting schedule, the Group has increased the awareness of embracing responsible environmental, social and governance ("ESG") practices. This heightened consciousness is not just within the Management teams, but also ingrained in our employees.

We reviewed a number of our existing ESG policies and updated them to be more aligned to the Global Reporting Initiative ("GRI") requirements. This is especially in view of the new GRI Standards which we will be adopting next year.

In 2017, the Group initiated a restructuring in the consumer products unit – Henan Xinfei, which was announced on the SGX in late October 2017¹. Therefore, the data disclosed for this unit will cover the period 1 January 2017 to 30 September 2017. The Group is reviewing new strategy options for this unit, including looking for joint venture partners and new business strategies.

With these changes implemented, the Group is going into 2018 leaner, and more flexible to transform as the market demands of us. Our focus will be kept on growing the business sustainably and we remain committed to being a responsible corporate citizen.

¹ Announcement on Proposed Restructuring on the Consumer Product Unit: www.hlasia.com.sg/news/HLA_20171030_1.pdf

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About This Report

This report has been prepared in accordance with the internationally recognized Global Reporting Initiative (“GRI”) G4 Sustainability Reporting Guidelines: Core option. It focuses on the sustainability performance of our building materials, diesel engines and consumer products business units.

Unless otherwise stated, this report contains data of the Group’s i) building materials and diesel engines business units from 1 January 2017 to 31 December 2017, and ii) consumer products unit from 1 January 2017 to 30 September 2017 which will cease to be reported in the following year.

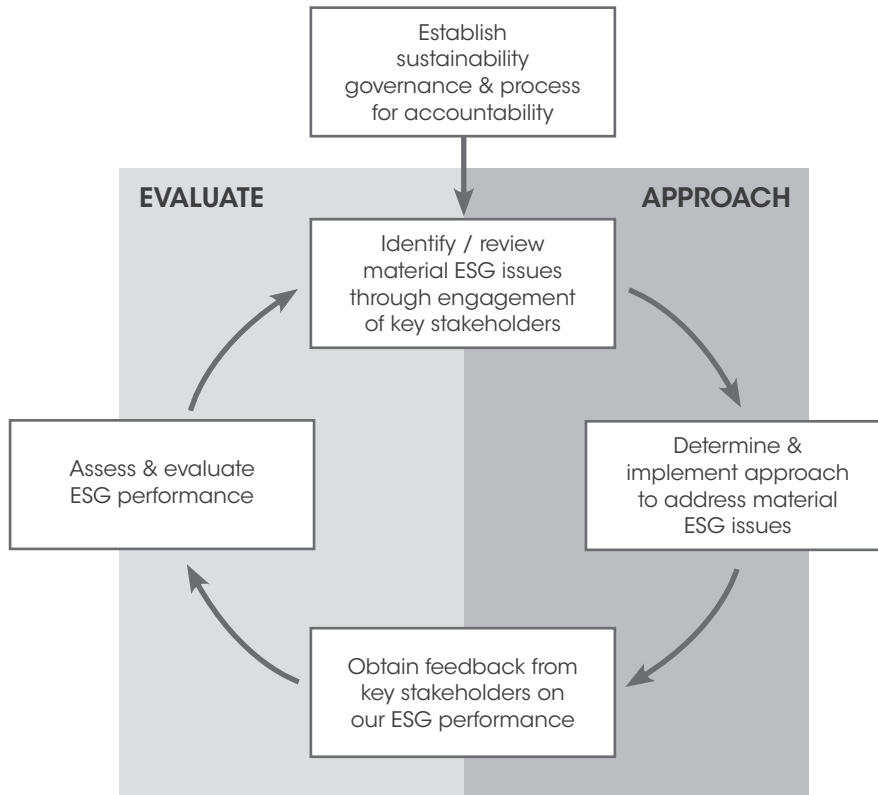
A historical comparison to the previous year has also been presented where possible. We will continue to assess and improve our data collection systems over time and adopt the GRI Standards in the next reporting period.

Sustainability Framework & Governance

As a means to ensure reliability, adequacy and effectiveness of the internal controls and risk management processes over our sustainability practices and reporting aspects, the Group developed a framework to formalise the oversight procedures (Figure 1).

The Sustainability Committee is tasked to identify the material ESG issues and manage them, including target-setting and reporting aspects. The internal controls and risk management processes of the Group’s operations is managed by the Management, led by the CEO.

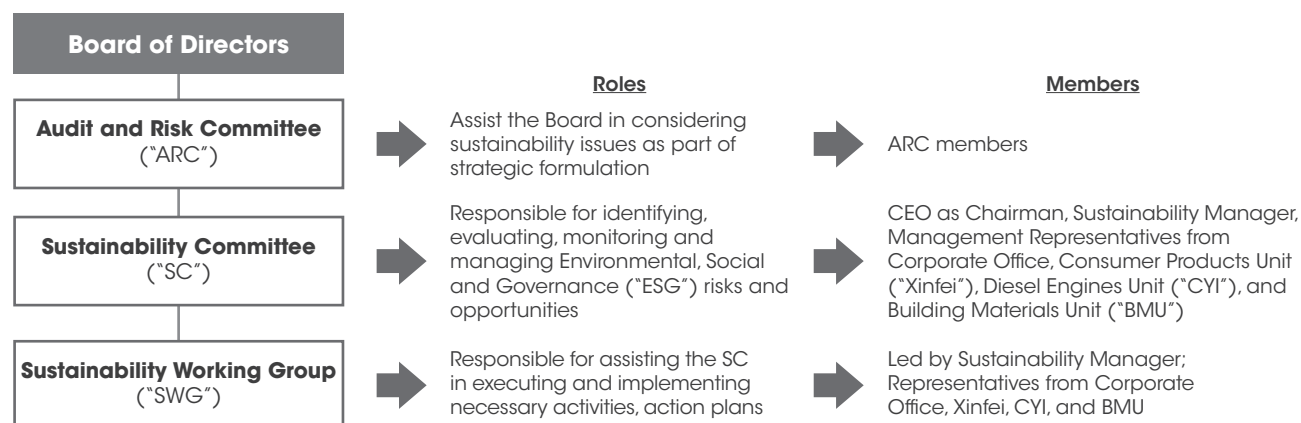
Figure 1: The Group’s Sustainability Framework



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On a quarterly basis, the Sustainability Committee provides a progress update on performance to the Audit and Risk Committee ("ARC"), and makes recommendations to improve the sustainability of the business. Every year, this process and performance is evaluated and reviewed by the ARC. The ARC in turn, reports to the Board to ensure that all requirements for sustainability compliance are met and assists the Board in considering sustainability issues as part of strategic formulation for the Group (Figure 2).

Figure 2: HLA's Sustainability Governance Structure

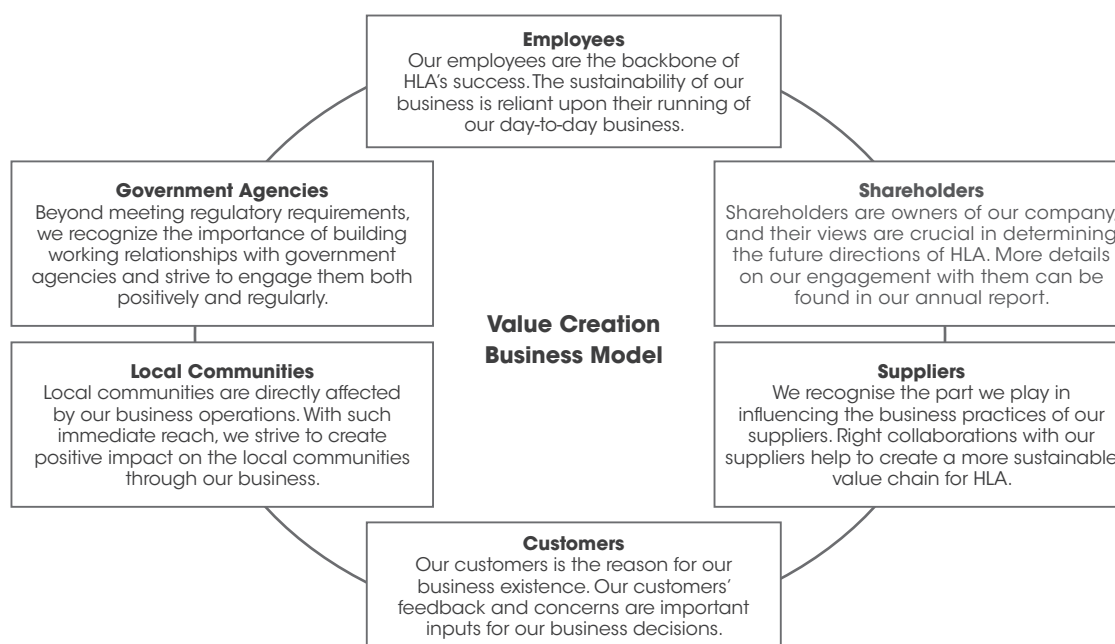


The Group's Stakeholders & Materiality Assessment Process

Key Stakeholder Groups

Through the Group's on-going activities, and applying the GRI stakeholder inclusiveness principle, the key stakeholder groups identified by the Group's Management are employees, customers, suppliers, relevant government agencies, shareholders, and local communities (Figure 3). The business relationships with these key stakeholders results in the value creation business model for the Group. Their feedback is critical for the Group to enhance the business by identifying important improvement and developmental areas, including the ESG issues, through regular interaction.

Figure 3: Impact & Significance of Key Stakeholders

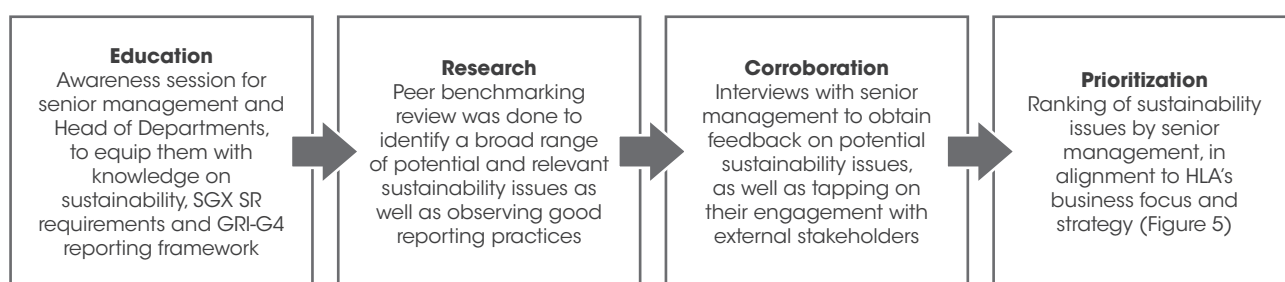


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Materiality Assessment

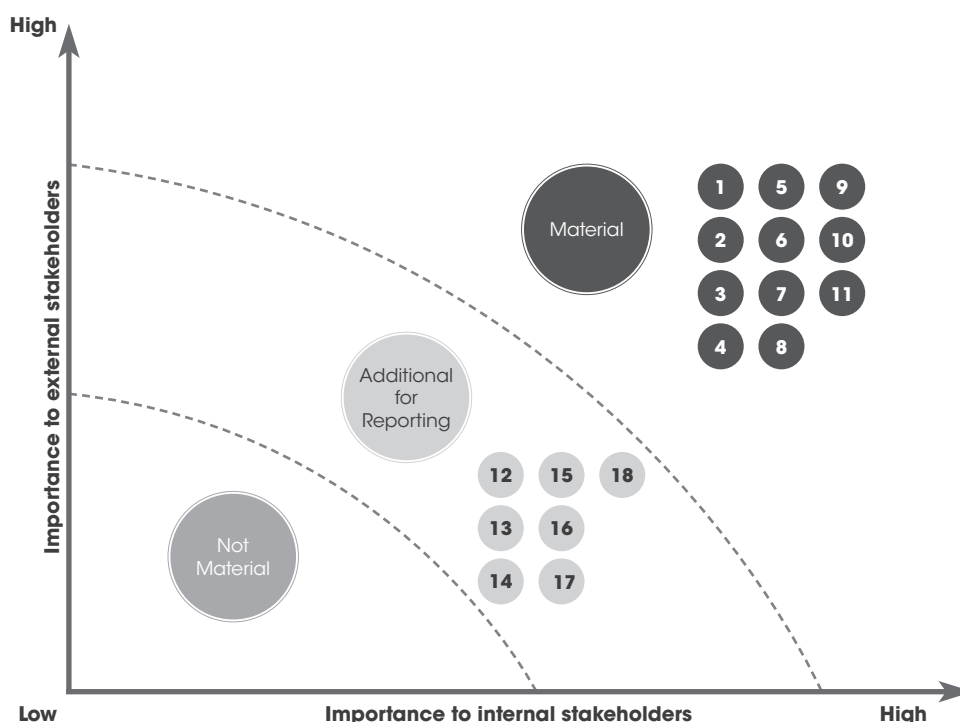
In 2016, the Group conducted our first materiality assessment with the guidance of external consultants, at the business units' level and consolidated it at the Group level, following the procedures outlined in Figure 4. After the "Education" and "Research" phases where key personnel familiarised themselves with sustainability reporting requirements and relevant ESG topics for the industry, they were asked to be proxies to the stakeholders whom they interacted the most with to vote on material ESG issues. In line with SGX's requirements, the issues of corruption and diversity were included for consideration. Our key personnel were able to tap on their knowledge of key stakeholders through regular engagement throughout the year via different channels. Details on stakeholder engagement can be found in the relevant sections of this report.

Figure 4: Materiality Assessment Process



From a pool of 29 relevant sustainability issues, 11 issues were identified as material (Table 1), and 7 additional issues (Table 2) were selected for reporting, in accordance with the GRI G4 Reporting Framework due to their significance to HLA's business operations (Figure 5). This year, the Sustainability Committee reviewed and validated that the priority ESG issues largely remain the same for 2017, with the exception of "Customer Distribution Management" which was specific to our consumer products unit that has been gradually scaled down since October 2017 and will be excluded from the sustainability report going forward. They have been further defined and mapped in Tables 1 and 2.

Figure 5: HLA's Materiality Matrix



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Table 1: Mapping Material Issues to GRI-G4 Aspects

S/N	Material Issues	Definition	GRI Aspects	Report Sections	Aspect Boundary
1	Economic Performance	Financial performance of the company	Economic Performance	Refer to the Chairman's Message, CEO's Statement, and Financial Statements for more information	
2	Enterprise Risk Management	Management of financial, operational, investment, IT, human resource, environmental, safety and crisis risks for business continuity	General Standard Disclosure	Refer to the Corporate Governance Report for more information	
3	Regulatory Compliance	Compliance to regulatory and other core operational regulations	Compliance	Our Business Environment	Within
4	Ethical Business Conduct	Practicing responsible business policies including anti-corruption and fair competition behaviour	Anti-Corruption, Anti-Competitive Behaviour	Our Business Environment	Within
5	Customer Satisfaction	Meeting customer expectations and maintaining good relationships	Product & Service Labelling	Understanding Our Customers' Needs	Within & outside
6	Product & Service Quality	Innovate and develop high quality products / services to meet customers' needs	Not applicable	Understanding Our Customers' Needs	Within & outside
7	Customer Health & Safety	Develop products which comply with mandatory or voluntary safety requirements	Customer Health & Safety	Understanding Our Customers' Needs	Within & outside
8	Employment Practices	Provide equitable opportunities and treatment to all employees including proper grievance management	Employment, Labour Practices Grievance Mechanisms	Looking After Our People	Within
9	Employee Well-being & Engagement	Creating a great place to work through welfare and benefits, and regular engagement with employees	General Standard Disclosure	Looking After Our People	Within
10	Employee Health & Safety	Provide for and promote the health and safety of employees and contractors, as measured by recordable incidents, fatalities, lost days	Occupational Health & Safety	Looking After Our People	Within
11	Environmental Compliance	Disclose any environmental non-compliance and efforts taken to mitigate or follow up actions	Compliance	Our Business Environment	Within

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Table 2: Mapping of Additional Issues for Reporting to GRI-G4 Aspects

S/N	Additional Issues	Definition	GRI Aspects	Report Sections	Aspect Boundary
12	Career Advancement & Succession Planning	Disclose availability of career training to promote career progression & other training for lifelong learning. Identify & develop high-potential employees to succeed key positions in the organisation for leadership continuity.	Training and Education	Looking After Our People	Within
13	Waste Management & Recycling	Minimise waste generation & reuse / recycling waste for beneficial use	Effluents and Waste	Caring for the Physical Environment	Within & outside
14	Energy & Carbon Footprint	Efficient use of energy to minimise carbon emissions throughout the production cycle	Energy Emissions	Caring for the Physical Environment	Within & outside
15	Other Atmospheric Emissions	Specific to Tasek Corporation: Disclose dust emissions for the unit's operations	Emissions	Caring for the Physical Environment	Within & outside
16	Sustainable Use of Materials	Manage use of natural resources & promote use of environmentally friendly materials during design & production processes	Materials	Caring for the Physical Environment	Within & outside
17	Water Management	Specific to BMU – Singapore: Manage water resources efficiently, equitably & sustainably for the unit's operations	Water	Caring for the Physical Environment	Within & outside
18	Stakeholder Engagement	Collaborate with stakeholders & community members through dialogues to discuss project ideas, address conflicts or voice concerns. Enrich lives in local community through social activities.	General Standard Disclosure, Economic Performance	The Group's Stakeholders & Materiality Assessment Process	Within & outside

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Our Business Environment

HLA's goal is to continue developing a robust and healthy business to benefit HLA's key stakeholders. As they are most impacted by the performance of the Group, we understand that any lapse in governance can have far-reaching impacts to our key stakeholders both within and outside the Group. We are committed to upholding the highest standard of ethical requirements to remain accountable and fair to key internal and external stakeholders.

Ethical Business Conduct

Approach

Integral to our ethical business conduct is our stringent approach towards anti-corruption. Our commitment is reiterated through HLA's "I - ACE - IT" corporate values² and Code of Business Conduct ("COBC"). We expect our employees to be exemplary in maintaining ethical behaviour when conducting the Group's operations. The COBC is available to our employees, who are required to agree with it upon joining the Group, and make an annual declaration that they have abided by the COBC during the year. The policy governs aspects including avoiding potential conflicts of interests, compliance with legal requirements, and ensuring proper internal controls within the organisation. This policy is managed and reviewed periodically by the Human Resource ("HR") Department and approved by the Group CEO. In addition, we enforce a strict policy where all donations and sponsorships are subject to authorised limits and Standard Operating Procedures.

Our suppliers and business partners are also expected to adhere to the Group's ethical requirements when we enter into a contract with them. HLA has in place a whistle-blowing policy³ overseen by the ARC, where employees or any other persons can raise concerns on possible breach of ethical business conduct.

Performance

In 2017, despite the Group's best efforts in reinforcing our zero-tolerance policy to unethical behaviour within the organisation, there were two confirmed incidents where three employees did not comply with our COBC. Appropriate disciplinary actions have been taken against these employees, and where substantiated, the matter was also reported to the relevant law enforcement authority. There have been no cases of legal actions for non-competitive behaviour, anti-trust and monopoly practices in 2017.

The Group takes a serious stance towards maintaining good corporate governance throughout the business. HLA has adopted an Anti-fraud, Anti-bribery and Anti-corruption Policy³ which sets out the responsibilities of the Group functions and business units in observing and upholding the Group's position on fraud, bribery and corruption. In addition, we are working to publish externally an ethical business conduct policy for our suppliers and business partners in the year ahead to ensure that good governance is enforced in our supply chain as well.

² Refer to the cover page of the Annual Report for more information on our "I - ACE - IT" corporate values

³ Refer to the Corporate Governance Report for more on the Group's Whistle-blowing Policy and the Anti-fraud, Anti-bribery and Anti-corruption Policy

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Regulatory & Environmental Compliance

Approach

In order to maintain the Group's license to operate, it is critical for us to meet our regulatory requirements. This responsibility principally lies with the head of each of the Group's business units, and is delegated to the respective heads of departments ("HODs") to ensure that regulations within their scope of work are complied with. They liaise with the relevant government agencies and coordinate periodic inspections as required. The HODs will then report to the head of the business unit for an annual evaluation, or as and when there are regulatory changes.

Performance

During the year, one of our batching plants received one stop-work order to investigate an accident. A contractor's driver was injured but has since fully recovered. During the down time, the business unit's nearby batching plants helped to serve our customers within the area and there was minimal impact to our operations. Investigations conducted by the business unit's internal Health & Safety Department and the local government agency found the contractor's driver's negligent behaviour as the cause of the accident. We have since worked with all our concrete contractors to increase the training intensity and enforce stricter standard operating procedures ("SOPs") to prevent similar incidents from happening in the future.

The Group understands the importance of adhering to the regulations of each jurisdiction that we operate in, and we will continue to work hard to ensure full compliance with rules and regulations.

Understanding Our Customers' Needs

As a manufacturer of industrial and consumer goods, our customers rely on us to produce good quality, safe-to-use products. Other than meeting internal benchmarks, obtaining feedback from our customers on their satisfaction with our products is crucial in the sustainability of the business. Therefore, the Group takes a holistic approach to ensure that our customers' demands are met.

Supply Chain & Product Management

Approach

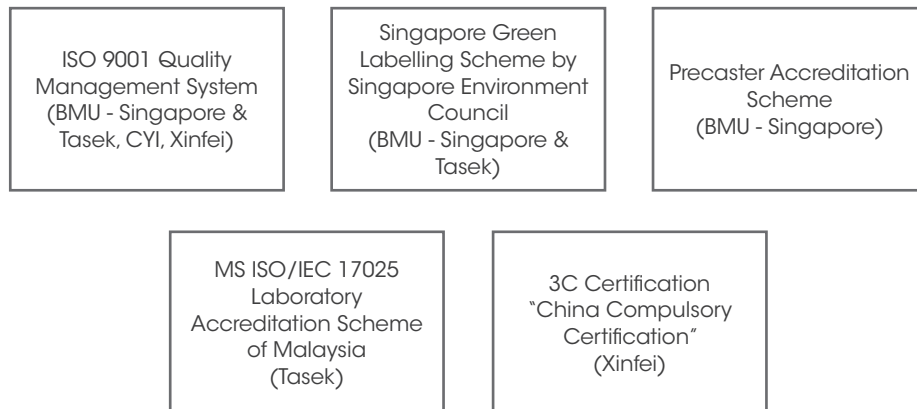
Before production begins, we have to ensure that the quality of the raw materials used in our manufacturing process is as specified by our production and procurement teams. Our business units have each established a pre-qualification process for significant tenders to include criteria such as only selecting suppliers which are in compliance with local regulations, and we give preference to those who are ISO 9001 certified.

Each of our business units has their own set of quality benchmarks and controls depending on the nature of the product, regulatory and industrial requirements (Figure 6), as well as satisfying customer specifications. Crucial raw materials in our production process are sample batched tested for their quality in our internal laboratories. Where they do not meet the specifications, the materials are returned to the suppliers. Major suppliers are also evaluated by the respective business units annually to ensure that the product quality, delivery and services provided are up to standard and able to support HLA's manufacturing business.

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The Group also takes a forward perspective on our products by developing products ahead of regulatory requirements or those which our product markets are increasingly demanding for. For instance, through their respective research and development teams, our BMU – Singapore and Tasek each developed their own formula of Portland Fly-Ash Cement made from fly ash, a waste product from coal power plants, for sale in their respective markets. Both business units have also obtained the Singapore Green Label for their respective Portland Fly-Ash Cement (Figure 6).

Figure 6: HLA's Product Quality Certifications



Performance

This year, the Group conducted a major review on our suppliers to assess which suppliers were able to consistently provide us with good quality and cost effective materials. We had approximately 1,600 suppliers providing us with goods and services during the year, largely from China, Malaysia and Singapore. The Group is in the midst of preparing an ethical business conduct policy for our suppliers and business partners. This will further help to ensure that the Group is able to maintain a responsible supply chain.

Our superior product quality has been recognised over the years through awards given by various bodies, and this has helped to build the reputation of our business units. Figure 7 lists some of the accolades received by our business units in 2017, ascertaining the quality of our products and brands. This includes our diesel engine business unit clinching an Excellence Award for developing faster and greener manufacturing techniques in casting processes. The Group strives to surpass our past benchmarks to innovate products and improve our product quality with the support of our suppliers.

Figure 7: HLA's 2017 Awards



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Customer Health & Safety

Approach

Ensuring our customers' health and safety during the use of our products is a key component of our product responsibility. As the nature of our manufacturing varies, our respective business units have in place different measures to protect and prioritise the health and safety of our customers (Figure 8). The Health & Safety Departments are tasked to keep all customers who visit our sites safe, while the Research and Development ("R&D") teams place the health and safety of the users of our products as a priority consideration during product development.

Figure 8: Customer Health & Safety

<p>Building materials unit</p> <p>Our cement plant and precast concrete facilities have obtained the OHSAS 18000 certification⁴. In addition, customers who visit our cement and concrete production facilities are equipped with personal protective equipment at all times.</p>	<p>Diesel engines unit</p> <p>On top of embarking on R&D to continually improve the safety design of our diesel engines, we provide detailed user manual and after-sales service to guide our customers in safe usage. Furthermore, we conduct maintenance trainings for Original Equipment Manufacturers and large customers, so that they can prevent machine failure and other safety incidents.</p>	<p>Consumer products unit</p> <p>We have obtained various certifications for the refrigerators that we manufacture to ensure the highest level of safety for our customers, as well as the OHSAS 18000 certification⁴ for our plant sites.</p>
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Performance

During the year the Group did not receive any reports regarding any incidents from the users of our products or visitors to our sites. We endeavour to continue this trend and will be diligent in safeguarding our customers.

Customer Satisfaction

Approach

HLA's business units' customers are the centre of the Group's value creation. Our diverse manufacturing business means each product's customers have different demands and our business units each set their own set of unique targets which are tailored to the nature of its business. We make use of various opportunities to engage with our customers such as face-to-face dialogues, site visits, e-mails and phone calls. Every customer feedback is analysed before we devise action steps to enhance positive customer experience, as well as correct and prevent re-occurrences of negative customer experience. For the BMU, our cement customers are surveyed annually while the rest of the customers are surveyed after each project. As for our diesel engine and consumer products units, our customers' satisfaction is based on their after-sales servicing feedback.

Performance

Upon evaluating the 2017 survey results for our various business units, we are pleased to report that all of them had surpassed the internal benchmarks set for customer satisfaction.

The high quality of service provided by our people has been highlighted by our customers across our business units. We pride ourselves on being able to deliver quality products accompanied with good servicing of customers which are crucial in a highly competitive economic condition. In the event that our customers face issues with our products, our people are able to react promptly and deal with the situations professionally. During the year however, our BMU had a few occasions where the quality of the bags and pallets used to package our cement resulted in breakages. While these incidents did not affect the quality of our products, they had inconvenienced our customers and we are working with our suppliers to ensure that this does not happen again in future.

Feedback from our customers has generally been very positive and our people are encouraged by the comments. The Group will continue to work towards producing cost-effective, good quality products and meet our customers' demands.

⁴ OHSAS 18000 is the international occupational health and safety management system which covers any person on the site, including visitors

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Looking After Our People

The Group's employees are the main value generators of our business. As a responsible enterprise and to ensure the sustainability of the Group, it is important that our employees are motivated and well-contented. We take a comprehensive approach towards engaging our employees, emphasizing on fair employment practices (which include employee's well-being, career development and succession planning) as well as health and safety aspects. The respective HR Departments at our business units act as the main coordinator in the engagement of the Group's employees.

Employment Practices

Approach

Every new employee to the Group is given a welcome orientation upon joining the business unit. Thereafter, their supervisors will go through with them their work objectives and provide on-the-job training for their respective positions. As we are concerned with the growth of our people, to improve their competency and productivity, one of the ways the Group plans for their career advancement is through providing training. Other than on-the-job trainings ("OJT") which are not formally recorded, the formal types of trainings attended by the Group's employees can be conducted by our own in-house specialists or by external experts on-site or off-site. Our employees can also suggest to their supervisors on the external trainings they want to attend which will aid with their work.

There are mechanisms in place in all our business units to receive feedback from the Group's employees all through the year. The respective business units' HR Departments are in-charge of suggestion boxes where employees can drop in their opinions anonymously. Our unionised employees can also raise issues through the union branch. All constructive feedback is taken seriously and passed on to the business unit's Management for resolution.

Most of the time, our employees will choose to voice their comments during their performance evaluation with their supervisors, which is conducted annually. This annual appraisal is conducted for each employee to determine salary increment, promotion or identify their career development plan. The Management will also make use of this opportunity to identify and communicate with high-potential individuals who may be part of the succession plan for that department or business unit.

Performance

As at the end of the year, the Group employed 11,389 people, of whom approximately 90% of employees were covered by collective bargaining agreements. One male staff was employed on a part-time basis for a temporary project in Malaysia, while the rest of our people were full-time employees. The decrease in headcount from 2016 of about 13% across both genders and the age groups was largely due to the restructuring of the consumer products business unit, coupled with the optimisation of work flows at the diesel engines business unit.

In order to keep our workers encouraged and motivated during this period of volatile economic conditions, the Group paid close attention to the welfare benefits of our employees and addressed them promptly during the year. The primary feedback was to improve the distribution of work and amount of annual leave days. Therefore, the respective business units' Management re-examined the affected workers' workloads and one of our China business units also provided all employees with a 2-week holiday during the summer, low production season as a sign of appreciation for their hard work in the past year.

The average formal training hours per employee for our BMU by gender and employment category can be found in Table 3. As most of our non-executives are workers at the plants where OJT is the most useful training and yet ad hoc, it is not included in the compilation of formal training hours, therefore their training hours may seem low. Given the nature of the manufacturing industry where the Group's non-executives are predominantly males, their corresponding hours of training is lower than their female counterparts.

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In the coming year, the Group intends to review our training policy across the business units and different employment levels. In 2017, we implemented a system to collect training hours of CYI and Xinfei's HR-organised trainings, and are in the process of expanding the system to include training conducted at the department levels for CYI. The Group will also be closely monitoring our employees' labour productivity and work load to ensure fair distribution and remuneration, as well as make adjustments where necessary. HLA aspires to create a working environment that will grow the careers of our employees as we grow our business.

Table 3: Summary of People Performance

Employee Profile						
Employment Contract Type	China		Malaysia		Singapore	
	Male	Female	Male	Female	Male	Female
Permanent	4,874	1,120	720	85	498	54
Temporary	3,144	877	14	2	1	0

Employee Movements										
Region	New Hires					Departures				
	Age Group			Gender		Age Group			Gender	
	<30	30-50	>50	Male	Female	<30	30-50	>50	Male	Female
China	127 (50%)	29 (27%)	0 (0%)	136 (41%)	20 (57%)	425 (76%)	883 (88%)	441 (93%)	1,431 (84%)	318 (91%)
Malaysia	97 (38%)	29 (27%)	4 (80%)	121 (37%)	9 (26%)	114 (20%)	59 (6%)	15 (3%)	169 (10%)	19 (6%)
Singapore	29 (12%)	48 (46%)	1 (20%)	72 (22%)	6 (17%)	24 (4%)	66 (6%)	19 (4%)	98 (6%)	11 (3%)

BMU: Average Hours of Training - Employees				
Management	Executive	Non-Executives	Males	Females
20.1	13.2	5.6	8.0	8.4

Employee Health & Safety

Approach

It is a top priority of the Group to ensure that every employee goes home safely at the end of each work day. All the Group's main production facilities have a dedicated Health & Safety Department whose principal task is to oversee the health and safety aspects of the worksites and employee health. Their work includes ensuring compliance to relevant local regulations, as well as organising and conducting health and safety trainings for our employees. The Health & Safety Department conducts regular on-site inspections, and our employees can report any observed safety hazards or make safety enhancement recommendations to the Health & Safety Department. The Health & Safety Department then brings those suggestions to the Management for approval and further action.

In the event of any safety incidents, regardless of whether anyone was injured, or whether the party is an employee, contractor or visitor, the Health & Safety Department will conduct a full investigation on the cause and details of the incident. A report will be made to the Management along with recommendations on how to prevent similar incidents in future.

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Performance

On the overall, there has been a slight decrease in the Group's workplace injury rate for employees as compared to 2016 (Table 4). Since 2017, other than on-site accidents⁵, all incidents with injury suffered by our employees that occurred during travel required for work and on external site visitation are also recorded. This is also the first year we have disclosed contractor injury rates. Most of the injuries were cuts, abrasions and fractures, but there were no reports of occupational diseases suffered by our employees and contractors.

In spite of our best efforts to implement the strictest level of safety standards for our employees, the Group deeply regrets to report that there was one fatality in our China operations during the year. We paid a monetary fine of RMB 210,000 (approximately S\$43,000) to the local government due to the breach of deemed responsibility of the business unit in ensuring the safety of all employees. The Management investigated the incident and as it was due to negligence in operations of machinery, the business unit implemented more safety measures relating to operating the production equipment, so as to prevent similar incidents from happening in future.

Our business units will work hard to achieve the zero-fatality target and the Group will be placing more emphasis on health and safety in the coming year by reviewing the training and inspection plans.

Table 4: HLA's Health & Safety Statistics, by Year, Gender and Region

Health & Safety Statistics									
Gender	Region	Injury Rate ⁶				Accident Severity Rate ⁷			
		Employees			Contractors	Employees			Contractors
		2017	2016	2015	2017	2017	2016	2015	2017
Male	Overall	3.35	3.85	4.15	6.04	0.03	0.10	0.10	0.05
	China	13%	2%	1%	14%	50%	20%	13%	76%
	Malaysia	52%	44%	60%	43%	28%	59%	69%	13%
	Singapore	35%	54%	39%	43%	22%	21%	18%	11%
Female	Overall	0.94	0.40	1.14	0	0.08	0.05	0.05	0
	China	100%	100%	100%	-	100%	100%	100%	-

⁵ Accidents are defined as all incidents with human injury

⁶ Workplace injury rate is defined as no. of fatal and non-fatal workplace injuries / no. of employed persons x 1,000

⁷ Accident severity rate is defined as no. of man days lost to workplace accidents / no. of man-hours worked x 1,000

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Caring for the Physical Environment

The manufacturing and construction industries contributed to 19.7% of global carbon dioxide emissions in 2013⁸, and the manufacturing sector was the second largest consumer of energy (24%) in 2014 after transportation⁹. At HLA, as an industrial manufacturer, we understand the impact of our environmental footprint and have made some changes within the organisation, doing our part to make our manufacturing process cleaner and greener.

Energy & Carbon Footprint^{10,11,12}

Approach

The Group measures and monitors energy consumption from various fuel types and electricity use at each of our major production facilities. As a significant contributor of the Group's carbon emissions stems from our cement production during the formation of clinker, we have engaged external carbon specialists in 2016 to help the business unit compute the greenhouse gas ("GHG") emissions in accordance with ISO 14064 international industry requirements. Furthermore, in the same year, the business unit established the Industrial Ecology Department ("IED") to explore alternative raw materials and fuels that can be used in the cement and concrete production process. Our facilities at CYI and Xinfei have also obtained the ISO 14000 Environmental Management Systems certification to oversee our environmental responsibilities.

In addition, the diesel engines business unit has been tapping on solar energy generated by our business partner, the Yuchai Group, since 2012 in a bid to consume greener energy. The consumption of solar energy has been stable, ranging between 9% and 11% of total electricity consumption at the diesel engines business unit between 2015 and 2017. This is primarily limited by the number of days of optimal weather for the efficient generating of solar energy, as well as the excess capacity available for use by the business unit as allocated and distributed by the Yuchai Group.

Performance

While total energy consumption increased 7.4% for the Group as compared to 2016 (Table 5), there was an 18.8% decline in Scope 1 emissions intensity. The main reason was due to the exploration of non-coal fuel types for the BMU such as alternative fuels through the IED which has lower emission factors. This is one of the strategies to improve the sustainability of the BMU by reducing the reliance on coal and decreasing the Group's carbon footprint.

Electricity consumed by the Group in 2017 dipped by 1.1% as compared to that in 2016 as the slowdown of the consumer products and building materials business units led to offsets to the increase in electricity consumption from the expansion of the diesel engines business unit. To complement this expansion, a review of work processes was conducted at the diesel engines business unit, resulting in a significant improvement in efficiency of electricity consumed by machinery and equipment. Most substantially, the operations schedule of the foundry, which consumes approximately 60% of total electricity at the diesel engines business unit, was optimised to minimise the number of complete shutdown and reboots, thereby reducing the amount of electricity consumed in this work process. The overall effects of the optimisation exercise contributed to a decrease in both electricity intensity and Scope 2 emissions intensity by about 9.0% each.

The Group will continue to track our energy and carbon footprint, and endeavour to improve the efficiency of our energy consumption while reducing the business units' reliance on traditional forms of fossil fuels with higher emission factors.

8 The World Bank – World Development Indicators: Carbon dioxide emissions by sector wdi.worldbank.org/table/3.10#

9 International Energy Agency – Key World Energy Statistics 2017

10 Source of default net calorific values for fuels used: 2006 IPCC Guidelines for National Greenhouse Gas Inventories

11 Source of Scope 1 emissions factors: 2006 IPCC Guidelines for National Greenhouse Gas Inventories, GHG Protocol and Cement Sustainability Initiative database

12 Source of Scope 2 emissions factors: 2006 IPCC Guidelines for National Greenhouse Gas Inventories, Singapore Energy Statistics, and International Energy Agency's CO₂ Emissions from Fuel Combustion Highlights

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Table 5: HLA's Energy and Carbon Footprint, by Fuel Type and Unit

Energy Consumption			
	2017	2016	2015
By Business Unit			
BMU (TJ)	8,399	7,773	7,838
Consumer Product (TJ)	32	47	66
Diesel Engine (TJ)	370	375	1,928
By Fuel Type			
Coal and Anthracite (TJ)	6,727	6,560	7,272
Gas and Diesel Oil (TJ)	586	552	602
Others (TJ)	1,488	1,083	1,958
Total Energy Consumption (TJ)	8,801	8,195	9,832
Overall Energy Intensity (TJ / S\$ million)	2.22	2.24	2.46
Scope 1 Emissions (By Business Unit)			
	2017	2016	2015
BMU (tCO ₂)	1,500,465	1,703,990	1,780,044
Consumer Product (tCO ₂)	1,798	2,642	3,676
Diesel Engine (tCO ₂)	26,859	27,013	126,842
Scope 1 Total Emissions (tCO₂)	1,529,122	1,733,645	1,910,562
Scope 1 Emissions Intensity (tCO₂ / S\$ million)	385	474	479
Electricity Consumption (By Business Unit)			
	2017	2016	2015
BMU (MWh)	230,672	245,415	243,907
Consumer Product (MWh)	21,154	34,361	36,706
Diesel Engine (MWh)	268,553	246,634	214,522
– Electricity Generated from Solar Energy (%)	9.1	10.7	9.8
Total Electricity Consumption (MWh)	520,379	526,410	495,135
Overall Electricity Intensity (MWh / S\$ million)	131	144	124
Scope 2 Emissions (By Business Unit)			
	2017	2016	2015
BMU (tCO ₂)	158,581	168,787	167,688
Consumer Product (tCO ₂)	16,309	26,493	28,300
Diesel Engine (tCO ₂) ¹³	188,212	169,808	149,188
Scope 2 Total Emissions (tCO₂)¹³	363,102	365,088	345,176
Scope 2 Emissions Intensity (tCO₂ / S\$ million)	91	100	86

¹³ Scope 2 emissions have been retrospectively adjusted to account for solar energy consumed by the diesel engine business unit in place of traditional fossil fuel sources

SUSTAINABILITY REPORT

Sustainable Use of Materials & Waste Management

Approach

Having a sustainable supply chain is becoming an increasingly significant social issue as end-users are more concerned and aware about what is in the products they purchase. Our business units' Procurement Departments are also tasked to source for materials which are cost-effective and low-carbon or certified by recognised environmental organisations in order to reduce our environmental impact.

In addition, CYI has been filing conflict minerals reports to the Securities Exchange Commission ("SEC"), in line with the United States Dodd-Frank Act, Section 1502. Beyond meeting regulatory requirements, conflict minerals reporting has helped us to trace our chain of custody to ensure that our supplies are ethically sourced.

As part of practicing circular economy principles, the Group is also researching on recycled materials or materials that can be reused in our manufacturing process, which would otherwise become waste. An example of this is our IED established in 2016 for our cement and concrete production.

For waste that cannot be easily disposed, the Group entrusts them to licensed contractors who collect them from our sites. All our hazardous wastes are labelled clearly and stored in restricted areas by the respective business units' Health & Safety Departments to prevent any spills or unintentional contact while they are still on our sites.

Performance

Approximately 11.3 million tonnes of non-renewable materials consumed¹⁴ in 2017, representing a 23% decrease in the amount of raw materials consumed as compared to the previous year mainly due to the gradual slow down and restructuring of our consumer products unit. The proportion of recycled input materials increased from 6.6% to 12.3% as the Group explored more alternative raw materials and fuels which would otherwise have been disposed in landfills or discarded. During the year, the Group streamlined the reporting and recording policy of waste materials which were reused, recycled or recovered by our waste contractors. This exercise is expected to be completed in 2018. In 2017, the waste produced by the Group is approximately 464.1 kilotonnes¹⁴, of which 0.15% was hazardous and properly disposed by licensed contractors, and a total of 56.6% of total waste was reused, recycled or recovered by our waste contractors.

Dust Emissions

Approach

Specific to the Group's cement production in Malaysia, due to the dust emissions from cement production having an effect on the health of employees and neighbouring communities, as well as the environment in general, the Malaysian government has set a dust emissions limit of 100 mg/m³ under the Clean Air Regulations ("CAR"). From 1 June 2019, the new CAR limit will be revised to 50 mg/m³.

Our kilns are fitted with online monitors, and the readings are submitted electronically on a regular interval to the Department of Environment's dust monitoring agency. The business unit's Health & Safety Department is in charge of monitoring the dust emissions from the kilns and informing the production team in the event of any abnormal readings. The production team will then make changes accordingly.

¹⁴ Only the most significant raw materials and waste for each business unit in the sustainability reporting scope have been included

SUSTAINABILITY REPORT

Performance

The business unit is in the midst of upgrading the dust collectors from electrostatic precipitator ("ESP") to the filter bag technology which will reduce dust emissions to below 50 mg/m³. While dust emissions in the previous year ranged between 31 to 60 mg/m³, in 2017, the daily average dust emissions was below 50 mg/m³. It is estimated that the conversion to filter bag will be completed by early 2019.

Water Management

Approach

Water is a crucial resource in water-scarce Singapore. Other than rainwater and imported water, it relies mainly on desalination and treatment of waste water which are energy intensive processes. Therefore, every drop of water is precious, and specific to our Singapore BMU, water usage is an important issue to the business. Effected in 2015, the Singapore Government required large consumers of water to provide a Water Efficiency Management Plan ("WEMP") to the local authority on an annual basis.

The BMU Production & Operations team in Singapore oversees the quantity of water consumed and the waste water discharged, ensuring that they are used and disposed in a way that meets the strict regulations of the local authority. As a number of our batching plants were required to provide the WEMP, the business unit took the opportunity to install water recycling and reusing facilities, and track these indicators at all the batching plants in Singapore.

Performance

During the year, Singapore BMU consumed 587,352 m³ of water, which is a 2.8% decrease as compared to the previous year. This is mainly attributed to improvements in the rate of water recycling and reusing efficiency, increasing from approximately 28% in 2016 to 32% in 2017. We will continue to monitor our water consumption closely to mitigate any significant increase in water consumption, and seek to improve on the efficiency of water recycling and reusing at the batch plants.

Corporate Social Responsibility ("CSR")

Approach

The Group is committed to growing our business and also improve the well-being of the surrounding communities where we operate in. Our business units which are most in touch with the needs of the local community decide on the activities which they desire to support.

Performance

The Group donated more than S\$175,000 to our local communities through various CSR initiatives in 2017. The Yuchai Green Foundation in China funded more than 290 students for their academic year, and the business unit organised an event which 652 of our soon-to-retire employees participated to help promote an active lifestyle after retirement. In Malaysia, our BMU focused on providing financial assistance to primary students from underprivileged families in supporting their needs for education.

Moving Forward

The Group seeks to improve our sustainability indicators as a means to track the sustainable growth of the business, as well as to increase transparency in communicating our non-financial performance with our key stakeholders. Targets have been set for our material items and we look forward to reporting on them in the following year. All sustainability related queries and feedback can be sent to: sustainability@hla-grp.com.

SUSTAINABILITY REPORT

GRI Content Index for 'In Accordance' - Core

General standard disclosures		
Profile Disclosure	Description	Page Number/Section
G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	43
Organizational profile		
G4-3	Name of the organization.	Cover page
G4-4	Primary brands, products, and services.	1
G4-5	Location of organization's headquarters.	Back page
G4-6	Number of countries where the organization operates & names of countries with either major operations or are specifically relevant to sustainability issues covered in the report	1-2
G4-7	Nature of ownership and legal form.	Cover page
G4-8	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	2
G4-9	Scale of the organisation	2, 53-54
G4-10	Total workforce by employment type, gender, employment contract and region	53-54
G4-11	Percentage of total employees covered by collective bargaining agreements.	53-54
G4-12	Describe the organization's supply chain.	50-51
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	44, 50-51
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization	44-48, 56-59
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses.	NIL
G4-16	Memberships in associations (such as industry associations)	The Cement & Concrete Association of Malaysia
Identified material aspects and boundaries		
G4-17	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures (List all entities in the consolidated financial statements)	44, Notes 7, 8 and 9 to the financial statements
G4-18	Process for defining report content and the Aspect Boundaries and explain how the Reporting Principles has been implemented	44-48
G4-19	List all the material Aspects identified	47-48
G4-20	The Aspect Boundary within the organization: Whether the Aspect is material within the organization; The list of entities included in G4-17 for which the Aspect is or is not material; Specific limitation regarding the Aspect Boundary within the organization	47-48
G4-21	The Aspect Boundary outside the organization: Whether the Aspect is material outside the organization; The list of entities for which the Aspect is material, relate to geographical location; Specific limitation regarding the Aspect Boundary outside the organization	47-48
G4-22	Explanation of the effect of any restatements	57
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	46
Stakeholder engagement		
G4-24	List of stakeholder groups engaged by the organization.	45
G4-25	Basis for identification and selection of stakeholders with whom to engage.	45
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	45-46
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting; Report the stakeholder groups that raised each of the key topics and concerns	45-48

SUSTAINABILITY REPORT

Report profile		
G4-28	Reporting period	44
G4-29	Date of most recent previous report	2016
G4-30	Reporting cycle	Annually
G4-31	Contact point for questions regarding the report or its contents.	59
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option	44, 60-61
G4-33	Policy and current practice with regard to seeking external assurance for the report	We have not sought external assurance for our 2017 sustainability report
Governance		
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	44-45
Ethics and integrity		
G4-56	Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	49
Specific standard disclosures		
Profile Disclosure	Description	Page Number/Section
Business operations		
EC1	Direct economic value generated and distributed	59, Consolidated Income Statement
Environmental		
EN1	Materials used by weight or volume	58
EN2	Percentage of materials used that are recycled input materials	58
EN3	Energy consumption within the organization	56-57
EN5	Energy intensity	56-57
EN8	Total water withdrawal by source	59
EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	56-57
EN16	Indirect greenhouse gas (GHG) emissions (Scope 2)	56-57
EN18	Greenhouse Gas (GHG) emissions intensity	56-57
EN23	Total weight of waste by type and disposal method	58
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	50
Social		
Sub-category: Labour practices and decent work		
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	53-54
LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender	55, absenteeism is not a material issue for the Group
LA9	Average hours of training per year per employee by gender, and by employee category	54
LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	53-54
Sub-category: Society		
SO5	Confirmed incidents of corruption and actions taken	49
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	49
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	50
Sub-category: Product responsibility		
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	52
PR5	Results of surveys measuring customer satisfaction	52