

ZHENG LI HOLDINGS LIMITED

正力控股有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8283

2017

Environmental, Social and
Governance Report



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ABOUT ZHENG LI HOLDINGS LIMITED

Zheng Li Holdings Limited (“Zheng Li” or “the Company”) and its subsidiaries (together “the Group”) is a leading automotive service provider in Singapore. Listed on the GEM of the Stock Exchange of Hong Kong Limited on 8 November 2016. With over 15 years of experience in the passenger car service industry, we offer a comprehensive range of passenger car services including (i) maintenance and repair services, and (ii) modification, tuning and grooming services. This is carried out through our two core businesses – MBM Wheelpower Pte Ltd. (“MBMW”) and KBS Motorsports Pte Ltd. (“KBS”).



MBM Wheelpower was incorporated in 2002 to provide maintenance and repair services for the luxury and ultra-luxury passenger cars. The company quickly became Singapore’s leading one-stop automotive service provider.



Established in 2005, KBS provides modification, tuning and grooming services for luxury and ultra-luxury passenger cars in Singapore. We are the sole distributor of luxury car tuning parts from high-end producers Novitec, Eisenmann, DMC and RevoZport. We also provide international shipping for our high-end maintenance parts. Ultimately, we are committed to providing the best capabilities enhancement, efficient handling, performance quality and style upgrades for premium and continental cars.

In 2017, maintenance and repair services continue to be a key focus of the Group, contributing 83.8% of total revenue. Our consistent performance is due to our capability to maintain and repair a wide range of brands of passenger cars in Singapore as we are equipped with diagnostic equipment for carrying out such services. We modify and tune mainly luxury and ultra-luxury passenger cars, providing services ranging from aesthetic modifications including installing bodykits, to performance modifications including lowering the suspension of passenger cars and replacing the engine control unit. We also sell passenger car spare parts and accessories in Singapore and export to other countries, such as Malaysia, Indonesia, United Kingdom, People’s Republic of China and Thailand. We have continued to expand our range of tuning products and services to meet new customer demands although this segment has realised a decline of 40.0% in revenue from approximately S\$3.8 million in 2016 to approximately S\$2.3 million in 2017.¹

¹ For detailed financials, please refer to Zheng Li Holdings Limited Annual Report 2017, available at <http://www.zhengliholdings.com/investors/financial-reports/>

ABOUT THIS REPORT

This is the Company's annual Environmental, Social and Governance ("ESG") report, documenting our performance relating to our ESG aspects. The report is in accordance with the ESG Reporting Guide set out in Appendix 20 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("HKEx").

The reporting scope covers the Group's two main businesses, MBMW and KBS which operates out of our Sin Ming Autocare and Sin Ming Autocity Service Centre workshops, from 1 January 2017 to the financial year ended on 31 December 2017.

Stakeholder Engagement

The Group engages a wide variety of stakeholders including employees, customers, suppliers, the government, and the shareholders on a regular basis. We strive to be cognizant and responsive to our stakeholders' expectations, creating an enduring collaboration that can sustain the business growth.

Stakeholder Group	Method of Engagement	Purpose of Engagement
Employees (from new hires to senior management)	<ul style="list-style-type: none"> • Induction upon joining • Frequent on-the-job training • Employee engagement activities • Ongoing guidance by supervisors and management 	<ul style="list-style-type: none"> • Continuous engagement allows us to develop our employees' capabilities and address any potential workplace concerns in a timely manner.
Customers	<ul style="list-style-type: none"> • Customer service feedback records • Face to face consultation with service staff 	<ul style="list-style-type: none"> • We value our customers' feedback and use it to improve our services and quality of repairs.
Suppliers	<ul style="list-style-type: none"> • Ongoing direct engagements • Biannual Supplier Surveys 	<ul style="list-style-type: none"> • Trusted relationships with brand name suppliers is vital to the Group' ability to meet its quality commitment.
Government	<ul style="list-style-type: none"> • Discussions and communications with Authorities, as and when necessary 	<ul style="list-style-type: none"> • Engagement with the government allows us to keep up with regulatory requirements.
Shareholders	<ul style="list-style-type: none"> • Annual General Meetings • Annual and interim reports • Company announcements • Submissions on Company's website 	<ul style="list-style-type: none"> • The engagement allows us to keep up with shareholders' expectations.

Table 1 Stakeholders and Engagement Methods

Materiality Assessment Process

In February 2018, we reviewed the material ESG issues identified in 2016. Our materiality definition takes reference from the HKEx ESG Guide, which is defined as the threshold at which ESG issues become sufficiently important to investors and other stakeholders that they should be reported. After careful consideration, the management agreed that the material issues remain relevant to our business in this reporting year which are presented in a materiality matrix in Figure 1.

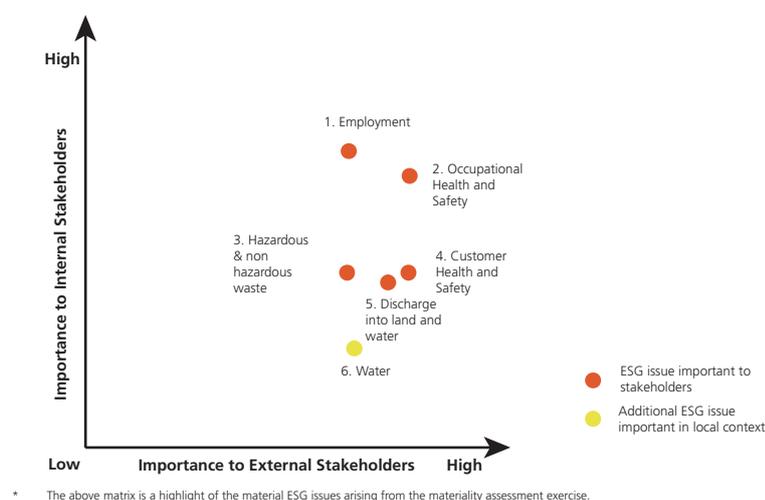


Figure 1 Materiality Matrix

#	Material Issue	Definition
1	Employment	Provide equal employment opportunities, fair compensation and fair treatment to all employees and contractors regardless of ethnicity, age or gender, provide fair performance appraisal system linked with progression/promotion opportunities, provide benefits and staff welfare to improve quality of life (e.g. healthcare screening programs, labour insurance, and other wellness programs), and provide for lawful dismissal.
2	Occupational Health and Safety	Provide for and promote the health and safety of all workers (including employees and contractors), as measured by recordable incidents/fatalities/lost days/absenteeism/etc.
3	Hazardous and non-hazardous waste	Manage the generation, treatment and disposal of waste such as grease, used lead acid batteries – including its proper transportation
4	Customer health and safety	Set up a quality management and assurance system for ensuring repaired cars are safe for customers to drive
5	Discharge into land and water	Manage the impacts of wastewater discharges into land and to sewers and water bodies
6	Water	Use and management of water.

GOVERNANCE

Daily operations at the Group are guided by high standards of business ethics. The Board is responsible for ensuring effective corporate governance across the Group, implementing effective risk management and internal controls to address ESG risks.

Integral to the Group's corporate governance is the Standard Operating Procedure ("SOP") which provides guidelines for employees to observe in their dealings with customers, suppliers and fellow colleagues, especially when dealing with matters that have ethical implications.

The Group's SOP provides guidance on issues such as:

- Fraud and sanction risk management procedure for the identification, assessment, management and reporting of risks on a consistent and reliable basis
- Whistle blowing procedure to enable employees and other persons to raise concerns on possible improprieties relating to fraud, unethical business conducts, violations of law, etc.
- Gift and entertainment control procedure for the receipt and giving of gifts and entertainment to any person, corporation or firm having transaction with the Group, or any prospective customer of the Group

SOCIAL



Employment

Employees are at the heart of the Group's success. We are committed to ensuring that labour and human rights practices are incorporated throughout our business functions. We respect diversity, non-discrimination and freedom of expression within our employees. We adhere to the legal minimum wage, provide a reasonable remuneration package to all employees and prevent all cases of child and forced labour.

Our recruitment process adheres to a fair and impartial human resources policy based on meritocracy. New hires are required to join a mentorship program during which they get accustomed to the firm's policies as well as learn both the technical skills needed for daily operation and the soft skills needed to provide excellent customer services. Subsequent on-the-job trainings would be provided to reiterate these skills and also to keep employees updated with changes in industry quality, safety standards, rules and regulations.

Through our feedback channels (company website portal and Facebook page), we keep track of exemplary performance as well as areas for improvement. This allows us to successfully promote the right personnel with excellent performance, while simultaneously identify employees who need additional trainings.

As at 31 December 2017, the Group had a total of 93 full-time employees. The remuneration packages of all employees are determined based on their qualifications, work contribution and seniority. In compliance with the Singapore Employment Act, the Group provides all full-time employees with the necessary benefits, including insurance, medical care, maternity and paternity leave.



Occupational Health and Safety

Automotive mechanics' jobs entail a long list of occupational health and safety hazards including potential musculoskeletal injuries, exposure to chemicals, burns, etc². In order to prevent accidents at work, the Company has put in place strict measures to protect the safety of our workers. We mandate safety training for all new joiners, and subsequently provide regular on-the-job trainings to reinforce our safety culture. These efforts have ensured a track record of zero injury during the year.

The following measures are integral parts of our health and safety trainings:

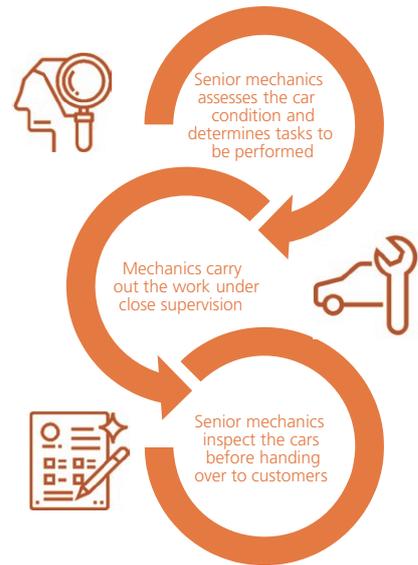
Adherence to safety standards	<ul style="list-style-type: none">• Mechanics to report all hazards, unsafe conditions and work practices to Service Center Managers or Service Advisors• Supervisors to enforce relevant safety standards in the workshop
Fostering a safety-first culture	<ul style="list-style-type: none">• Health and Safety trainings on a regular basis• Topics: safe use of facilities and equipment, safe lifting procedures and other safety precaution measures• Compulsory for all new hires
Provision of Personal Protective Equipment (PPE) and appropriate tools	<ul style="list-style-type: none">• PPE are provided to all mechanics and• Mandatory to wear at all time when in the workshop• Regular services and inspection of facilities and equipment
Create a safe working environment	<ul style="list-style-type: none">• Aisles and exit doors to be kept clear at all times• Floor to be kept free of oil, grease or any other type of liquid• Workshop to be brightly lit and well ventilated

Figure 2 Occupational Health and Safety Measures

² International Labour Organization, International Hazard Datasheet on Occupation (Mechanic, Automobile)

Customer Health and Safety

Customer safety is important to us and we strive to deliver the highest levels of trust and commitment to all our customers. Every modification has to be thoroughly examined to ensure that it does not compromise daily usage of the vehicle. Clearly defined roles and responsibilities are in place to ensure utmost service quality – car maintenance and repair are mainly carried out by mechanics, while the diagnosis and quality control are completed by senior engineers. In addition, we strive to ensure that our modifications comply with the rules and guidelines set forth by Land Transport Authority (LTA).



ENVIRONMENT

Water

Water is a precious resource and clean water supply is a top priority in the sustainability agenda of the Singapore government. At Zheng Li, we understand the role we have to play in water conservation and in helping Singapore meet its national targets.

In 2017, we replaced all current taps with water saving taps, significantly avoiding unnecessary water wastage. We also replaced our car washing equipment with a new water saving system. Lastly, understanding that the success of our water-saving efforts depends primarily on the attitude of our mechanics, who are responsible for all car washing in the workshop, we constantly engage and communicate with them the importance of water saving. At the end of 2017, a total of 178.9m³ of water was consumed in our operations.



Waste and effluents

Automotive repair facilities generate a huge amount of waste, including hazardous materials such as decreasing solvents, battery electrolytes, and paints and thinners. Other materials that come into contact with these hazardous materials can in turn pose a risk of pollution themselves. Therefore, it is our priority to ensure proper handling of waste so as to prevent accidents brought about by such waste. Our waste collection and disposal is handled by NSL Oil Chem Waste Management (“NSL”), a licensed toxic industrial waste collector.



In 2017, the Group put in place several new initiatives to reduce our waste, mainly through recycling old materials. For instance, rubber from old tyres were collected and sold to recycling companies to generate additional revenues which were in turn used to handle waste management.



Figure 3 Recycling Initiatives implemented in 2017

To avoid accidental discharge of the hazardous substances such as motor oils and diesels to the environment, all of our repair and maintenance activities are carried out in a designated workshop area with proper waste collection and treatment procedures. Any oil leaks are collected in drip pans and waste oil is filtered by the grease trap and separator in our drainage system before the discharge of waste water into public sewage.

Before the collection by NSL, we stored all hazardous waste in containers in a designated area with restricted access. This area is well-equipped with fire-fighting and other equipment to contain fires and spills for precaution.