

ZHENG LI HOLDINGS LIMITED 正力控股有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8283

2016

Environmental, Social and Governance Report



About this report

This is the first annual standalone environmental, social and governance (“ESG”) report by Zheng Li Holdings Limited (“the Company”) and its subsidiaries (collectively, the “Group”); following the Environmental, Social and Governance Reporting Guide (ESG Guide) set out in Appendix 20 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“HKEx”). The scope of this report includes the Group’s core businesses: MBM Wheelpower Pte Ltd. (“MBMW”) and KBS Motorsports Pte Ltd. (“KBS”) which operates primarily out of our Sin Ming Service Centre workshop. Unless otherwise stated, this report covers our policies and regulatory compliances on our material ESG topics from the listing date on 8 November 2016 to the financial year ended on 31 December 2016.

Corporate profile (overview of business)

The first of our two operating entities MBMW was incorporated as a limited private company in Singapore on 15 May 2002 to provide maintenance and repair services for the luxury and ultra-luxury passenger cars. We are a leading automotive service provider in Singapore in terms of the number of cars maintained or repaired¹.

We started our modification, tuning and grooming services for passenger cars in Singapore under the brand name of KBS in April 2005 in view of the service’s growing demand and interests and its potential synergies with the business. We also sell passenger car spare parts and accessories in Singapore, with certain exports to other countries namely, Malaysia, Indonesia, United Kingdom, People Republic of China and Thailand.

Our Approach in Sustainability Management

Corporate Governance and Conduct of Business

We have enhanced our accountability and transparency by upholding high standards in business ethics and corporate governance in all areas of our operations, thus building stronger trust with our stakeholders. The Board has overall responsibility for ensuring effective corporate governance across the Group, including ensuring that effective risk management and internal controls are in place to address any identified ESG risks. More information on our corporate governance structure and practices in line with the Corporate Governance Code can be found in our 2016 Annual Report published in March 2017.

The Group has in place the Standard Operating Procedure (“Group’s SOP”) crystallising its principles and practices with regard to matters which may have ethical implications. The Group’s SOP provides a communicable and understandable guidelines for staff to observe in their dealings with customers, suppliers and amongst fellow colleagues. 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

¹ As reported by Frost & Sullivan in 2015.

Stakeholder Engagement

The Group engages a wide variety of stakeholders including employees, customers, suppliers, the government, and the shareholders on a regular basis.

Table 1 Stakeholders and Engagement Methods

Stakeholder Group	How We Engage	Why We Engage
Employees (from new hires to senior management)	<ul style="list-style-type: none"> • 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 	<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 	<ul style="list-style-type: none"> • The engagement allows us to keep up with shareholders' expectations.

Materiality Assessment Process

With the help of our external independent consultant, we conducted a materiality assessment workshop with our management in February 2017, following a four-step process as illustrated in Figure 1 below. 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. 5 material ESG topics were selected as a result of our workshop, and is presented in a materiality matrix in Figure 2. In addition, though not considered to be material from our exercise, we have selected one additional ESG issue on water conservation for reporting, due to their importance in the local context of Singapore. The Supply Chain Management and Community Investment aspects under HKEx's ESG Reporting Guide were also considered during the workshop; however, they are determined to be relatively immaterial for the business operations at this point in time.

Figure 1 Materiality Assessment Process

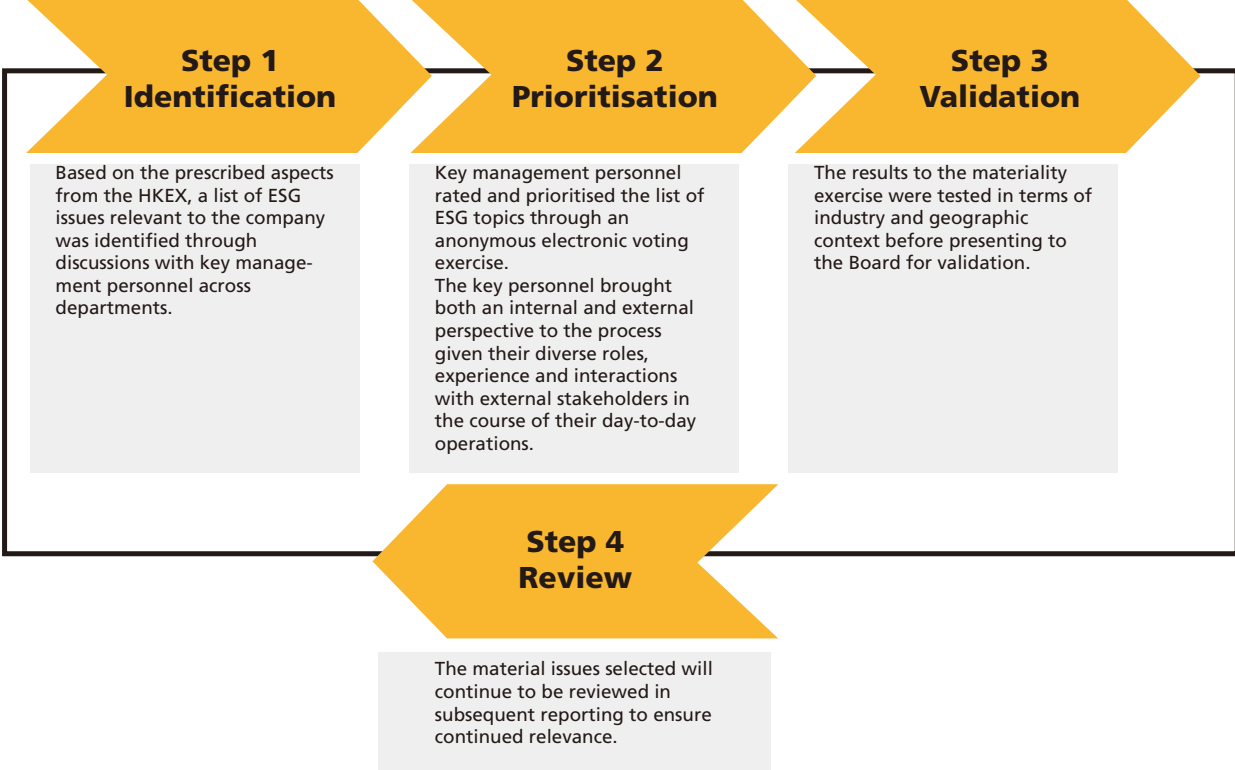


Figure 2 Materiality Matrix



* The above matrix is a highlight of the material ESG issues arising from the materiality assessment exercise.

Table 2 Identified Material Issues

#	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 improper 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.

Strive for service excellence (Material Issue 1 and 4)

Satisfied customers are essential to the long-term success of the Group. We ensure excellence in services through the following:

Figure 3 Service Excellence Model



Skilled Workforce

The Group understands and fully appreciates that employees are the driving force of a company to achieve its vision and mission. We believe that the Group’s continued success highly depends on its ability to recruit and retain sufficient technicians and staff.

Recruitment

We uphold a fair and impartial human resources policy, in which the capability and quality of the candidates are the most important factors during the recruitment process. The opening will be sourced from internal referral before it is advertised on newspapers. We recruit only well-trained mechanics for the job.

Employee development and training

All newcomers will participate in one month mentorship program which is conducted by senior staffs. The program includes induction on the Group's policies and operations and trainings on both technical (e.g. knowledge on equipment and safety training) and soft skills (e.g. customer services). Subsequently, the employees are kept up to date on new developments through on-the-job training. Due to our diversified business portfolio, the employees are exposed to different types of passenger cars which is beneficial to their skills development and long term career progress.

Remuneration and promotion

The Group offers attractive remuneration packages, taking into account the industry standards and local labor market environment.

To meet the employee's personal development needs, we place significant emphasis on internal promotion. We have developed a career development bridge system with 4 career progressions; from junior mechanic to senior mechanic to service advisor to workshop manager. Employee performance is assessed annually and performance incentives are given to high performers as annual bonus and increment.

Employee benefits

We strive to provide comprehensive benefits and safeguard to our employees. The Group fully complies with the Singapore Employment Act and provides life insurance, medical care, disability and invalidity coverage, maternity and paternity leave, incentive and bonus to our full-time staff.

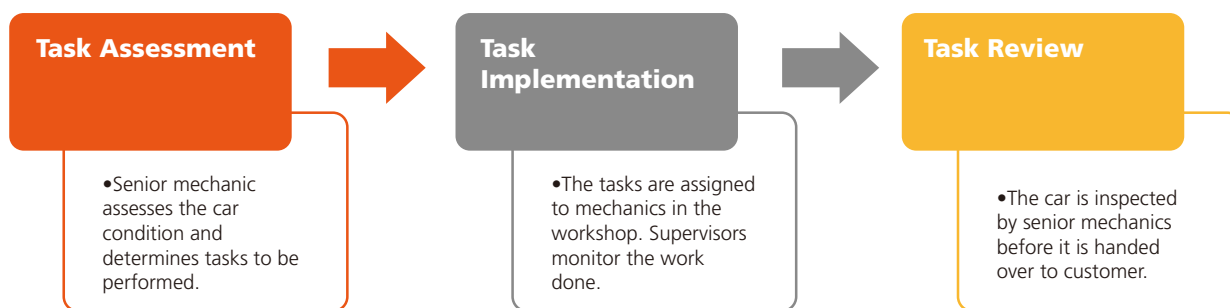
In order to enhance the sense of belonging of the new employees towards the Group and to strengthen team bonding, we organize different company events throughout the year such as Christmas Party, Chinese New Year Dinner and company trips.

Stringent Quality Control

According to guidelines issued by the Land Transport Authority (LTA), there are three types of vehicle modifications: a) modifications that are allowed without seeking LTA's approval; (b) modifications that require LTA's approval (i.e. engines, exhaust system, transmission and gearboxes); and (c) modifications that are not allowed (i.e. air horns, crash bars, daytime-running lamp etc.). We ensure that our provided services are in compliance to those relevant guidelines.

In our workshop, we monitor the workflow from customer request to conclusion of a case (Figure 4) to ensure quality control.

Figure 4 Service Delivery Workflow



Before each repair, the car condition needs to be carefully diagnosed so that the work to be performed can be accurately determined. Due to the importance of this step, the diagnosis can only be performed by experienced senior mechanics.

The work performed will then be closely monitored by supervisors. After the repairs by mechanics, the quality control inspections are conducted by our service center managers or senior mechanics. The cars can only be handed over to customers once the inspectors sign off on the job card as proof of satisfactory work done.





Ongoing customer feedback

We always take the continuous improvement of service quality and enhancement of customer satisfaction as our goal. All customers' feedback are addressed on site as much as possible before the cars are released from the workshop. After which, our customers are entitled to rectifications up to six months. All feedback from our customers are recorded in the system under each job history so that they can be used as reference for future training and quality improvement purposes.

Protect our people (Material Issue 2)

Our business is heavily reliant on labour. In our sector, mechanics are exposed to serious occupational health and safety risks such as working under vehicles, being on their feet all day, straining back and muscles, exposure to loud noises and long contact with grease. Therefore, safeguarding occupational health and safety is not just crucial for the continuity of our business, but is also our solemn commitment for our employee well-being. We have integrated safety and health management into our operations by implementing following measures.

Table 3 Occupational Health and Safety Measures

	<p>Adherence to safety standards</p>		<p>Fostering a safety-first culture</p>
<p>The mechanics are required to report all hazards, unsafe conditions and work practices to Service Center Managers or Service Advisors. The supervisors are responsible for enforcing relevant safety standards in the workshop.</p>		<p>To ensure our employees’ full understanding and participation in safe work, we organise health and safety trainings on a regular basis, with topics covering the safe use of facilities and equipment, safe lifting procedures, and other safety precaution measures (i.e. no distractions of another mechanic, never indulge in horseplay, put tools away when not in use). All our new employees are required to attend safety training before starting work at the workshop.</p>	
	<p>Provision of personal protective equipment (PPE) and appropriate tools</p>		<p>Create a safe working environment</p>
<p>All mechanics are provided with PPE such as safety boots, gloves and goggles and are reminded to wear the proper PPE at work at all times. Furthermore, all facilities and equipment are serviced periodically to ensure safety for the employees.</p>		<p>Our Sing Ming service center observe the following rules to ensure a safe working environment:</p> <ul style="list-style-type: none"> • Aisles and exit doors should be kept clear at all times. • Keep the floor free of oil, grease, or any other type of liquid. Clean up spilled liquids immediately. • The workshop should be brightly lit and well ventilated • The workshop should be equipped with first aid box and fire extinguisher. 	

Protect our environment (Material Issue 3, 5 and 6)

Waste Management

Due to the scarcity of land in Singapore with limited natural resources, urban planning and the use and disposal of resources have to be carefully planned and managed. Our service centre is located at a site allocated by the government for light industrial use with all handling, transportation, treatment and disposal of toxic industrial waste in Singapore handled by a National Environmental Agency-certified waste vendor, in compliance with the Environmental Public Health (Toxic Industrial Waste) Regulations 1988. The hazardous waste generated from our operation includes spent motor oils from engines and waste lead-acid batteries.

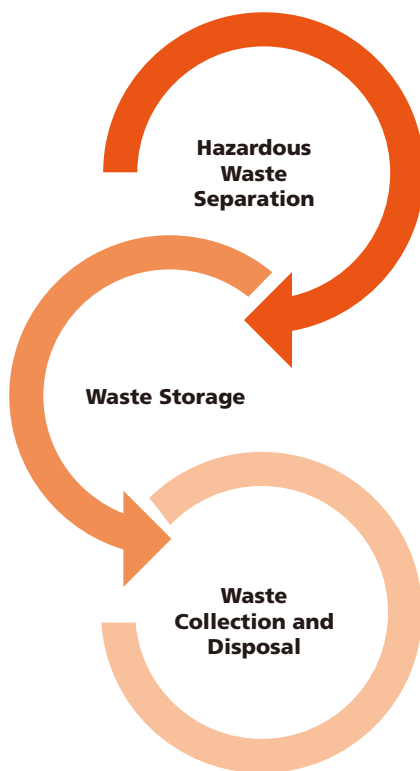


Figure 4 Waste Treatment Process

Waste separation

Hazardous and non-hazardous wastes need to be separated for treatment for environmental and safety reasons. 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 which is well-equipped with a waste collection and treatment facility. Any oil leaks are collected in drip pans and our drainage system is equipped with a grease trap and separator to capture the waste oil before the wastewater is discharged to the public sewage.

The used batteries are collected and properly stored before the car battery supplier collects them.

Waste storage

All collected hazardous wastes are stored in containers in a designated area with restricted access. The storage tanks are secured with labelled lids for identification purposes. The area is well-equipped with fire-fighting and other equipment to contain fires and spills, in the unfortunate event that these scenarios occur.

Waste disposal

Our waste collection and disposal is handled by NSL Oil Chem Waste Management Pte Ltd, a licensed toxic industrial waste collector. The waste is collected on a regular basis to maintain a minimum amount of waste stored on site.

Water Usage

Clean water supply is a top priority in the sustainability agenda of the Singapore government, due to the limited water resources in the country. While we have not prioritized water usage as a material sustainability topic for the business, we continue to play our part in supporting our national sustainability priorities. In addition, we recognize that the efficient management of water resources could bring economic benefits to the Group in terms of cost savings. In our business, as most of the water consumption is for car washing in the workshops, the success of water conservation initiatives largely depends on the mechanics' attitude and discipline towards water usage. We continuously engage with them on the issue by communicating the importance of water in the local context and creating awareness on water saving best practices.