



LUNG KEE (BERMUDA) HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 255)

Website: <http://www.irasia.com/listco/hk/lkm>

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Lung Kee (Bermuda) Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) publish its first Environment, Social and Governance Report (the “ESG Report”). This ESG Report was prepared for the year ended 31st December, 2016 with reference to the Environmental, Social and Governance Reporting Guide (the “Guide”) set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and based on the material aspects of the Group and its stakeholders. Unless otherwise stated, this ESG Report covers the operations at the plant in Heyuan city, Guangdong Province, the People’s Republic of China (the “PRC”) (the “Heyuan Plant”) and the plant in Hangzhou city, Zhejiang Province, the PRC (together the “PRC Plants”), which represent the core operations of the Group.

The Group communicates regularly with key stakeholders through various channels in order to understand their different expectations and identifies the most material aspects to be placed comparatively higher emphasis for reporting in the ESG Report. While higher priority is given to the most material aspects, the Group will continue to monitor and report the other aspects in the ESG Report in order to enhance the corporate transparency.

A. ENVIRONMENTAL

Aspect A1: Emissions

As one of the world’s largest mould base manufacturers and the leader of the mould base industry in the PRC, the Group believes that it should not only lead the PRC mould base industry to the world but also lead the industry to be carried on in an environmentally responsible way. The Group believes that in the long run, due performance of environmental responsibility would definitely improve the effectiveness of the utilisation of the Group’s resources and would raise the economic efficiency of the Group.

The Group’s PRC Plants abide by all the applicable environmental laws and regulations of the local government. The Group has established the environmental protection policies that include both emission reduction and energy-saving policies in order to minimize the impacts on the environment.

Aspect A2: Use of Resources

The Group’s PRC Plants have established the environmental protection, energy saving and

emission reducing policies and strived to integrate the environmental considerations into the daily operation. With the policies implemented in practice, an energy-saving taskforce was set up by Heyuan Plant in 2010 to ensure the policy direction and effectiveness on environment protection. The taskforce was also responsible for the planning of the energy saving and emission reducing solutions and supervising their implementations. The taskforce applied the energy saving objectives into the workshops.

Heyuan Plant continues to identify the potential and the approaches for energy saving and reducing the amount of energy consumption in order to meet the energy saving and emission reducing indicators as requested by the local government for the “Thirteenth Five-Year Plan” period. Heyuan Plant has conducted examinations on problems and insufficiencies in respect of energy usage and prepared an energy-saving planning report for the “Twelfth Five-Year Plan” in 2011. Hence, Heyuan Plant has already formulated a series of energy management systems to raise the efficiency of energy usage

Aspect A3: The Environment and Natural Resources

The Group’s PRC Plants continue to put environmental protection policies into practice as the Group believes that those energy-saving and emission reduction policies are not only environmentally friendly but also conducive to cost-saving. The Group also believes that those policies would eventually lead the Group to achieve sustainable development of the environment and the business of the Group.

During these years, the PRC Plants have adopted the energy-saving and emission reduction measures in relation to the cleaner production, such as the replacement of the energy-exhausting old machineries with the new machineries in order to increase the efficiency while saving the energy. Such measures have increased the efficiencies of both energy-saving and emission reduction and improved the working environment of the workshops.

In fact, Heyuan Plant has set up a cleaner production taskforce since 2011 and has appointed an independent environmental protection consultancy firm to assist the taskforce to conduct an examination about the cleaner production under the guidance of the Environmental Protection Bureau of Heyuan Municipality, the PRC. In 2013, Heyuan Plant has completed a cleaner production examination report, which concluded that the majority of the environmental protection proposals were implemented and the expected results achieved.

B. SOCIAL

Employment and Labour Standards

Aspect B1: Employment

The Group respects its employees and endeavours to provide better working conditions for its employees. The Group has established various policies in relation to the labour practices including the remuneration and dismissal, recruitment and promotion, working hours, holidays, disciplinary practice, equal opportunity, diversity and other benefits and welfare so as to provide a fair, healthy and safe working environment for all employees and at the same time, to provide a system of control to the Group to reduce the exposure to any risk concerning labour issues. The Group will update the policies from time to time in order to align with the updates of the rules and regulations of the respective places where the Group has business operations and the

changing of the business environments.

The Group strictly complies with the laws and regulations of the places where the Group has business operations. For protecting the interests of employees, the Group executes the labour contracts with the employees according to the laws and regulations specified by the countries and local governments of the places where the Group has business operations. For providing better assurance to the employees, the PRC Plants pay social insurances for their employees. The holidays and the benefits and welfare entitled by the employees are not less than the rules and regulations specified by the Labour Law of the PRC. The working hours for the employees are set in accordance with the rules and regulations specified by the Labour Law of the PRC and the Labour Contract Law of the PRC. The Group terminates the labour contracts with the employees in strict compliance with the labour laws and regulations of the places where the Group has business operations or through negotiation.

The Group provides equal opportunity for employees in respect of promotion, appraisal, training, development and other aspects in order to build up a sound career platform for employees. The PRC Plants based on the principles of fairness, equality and objectivity to establish an assessment system and promotion mechanism. Talents are identified through the specific processes under the system and mechanism.

Aspect B2: Health and Safety

The Group aims at providing a safe working environment for its employees and protecting its employees from occupational hazards. These safety objectives apply not only to the Group but also to the Group's business partners, contractors and all others working with the Group. For realizing these objectives, it relies on the cooperation of the employees from all levels within the Group including the management and the supports from the Group's business partners, contractors and all others working with the Group. In this connection, the PRC Plants have requested the contractors and all others working within the areas of the PRC Plants to execute the production safety and responsibility agreements, clarifying the responsibilities of both parties in respect of the safety production, in order to protect the health and safety of those working in the PRC Plants.

The Group is committed to achieving a high standard of occupational health and safety and maintains the good records for these areas. The Group believes that being a conglomerate with the greatest concern for its employees would gain the supports from the employees, customers and the stakeholders. The Group has established the occupational health and safety policies that strictly comply with the laws and regulations of the places where the Group has business operations.

The PRC Plants organize occupational health and safety education and training for their employees. Employees are educated continuously to raise their occupational health and safety knowledge and awareness and their emergency response capabilities. The PRC Plants monitor regularly the workplace and the personal safety facilities provided to the employees in order to timely detect any potential safety risk and to correct all improper actions. They should ensure that all production processes and activities should be carried under the safety and health management.

Aspect B3: Development and Training

The Group encourages its employees to exert their potential and to align their personal

developments with the growth of the Group, so as to promote mutual development between individual employee and the Group. The Group has established various policies in relation to the employees' education and training so as to ensure that employees pursue continuous self-development in line with the Group's business needs.

The PRC Plants have established a set of training system and process including "induction training", "vocational technical training" and "management skill training" in order to improve the overall quality and professional skills of the employees. New employees must participate in the "induction training", which includes the training topics of the Group's goals and policies, corporate culture, production safety, necessary skills etc. The "vocational technical training" aims to provide and strengthen the employees' professional skills specific to their job positions, production safety awareness, personal communication skills etc. The "management skill training" aims to enhance the daily management capability of the employees at the management level. The training content is evaluated from time to time in order to maintain the effectiveness of the trainings.

Aspect B4: Labour Standards

The Group implements its labour standards in strict compliance with the labour laws and regulations of the places where the Group has business operations. The Group maintains strict recruitment process to avoid cases of child labour and forced labour to be occurred at anyone of the business operations. The PRC Plants implement the labour standards as well as the recruitment process in strict compliance with the rules and regulations specified by the Labour Law of the PRC.

Operating Practices

Aspect B5: Supply Chain Management

The Group works with the suppliers with the same objectives and develops mutually-successful working relationships with the key suppliers. The Group strictly follows its policy, which is constructed under the Group's corporate culture of integrity, and professional standard in the selection of suppliers and purchasing process. Although the cost of purchasing is a major consideration in selecting suppliers, the Group also considers the suppliers' corporate social responsibility performances, including the suppliers' performances on the aspects of legal and regulatory compliance, business ethics, labour practice and environmental protection etc.

The Group has implemented a set of guidelines for the supply chain management, which is available on the Group's information portal for internal use. The purposes of the set of guidelines are not only for unifying the selection of suppliers and purchasing process but also for ensuring transparency in the selection of suppliers and purchasing process to guard against bribery and corruption. In this connection, the PRC Plants have requested the suppliers and the out-sourcing parties to execute the anti-bribery confirmation, urging them not to provide any benefits to the employees of the PRC Plants. The selection of suppliers shall be subject to a series of internal assessments and approval processes and supervised by the internal audit department. The engagement of suppliers is strictly controlled under the "Guideline for the Assessment and Control of the Suppliers". The Group shall review the set of guidelines from time to time in order to further strengthen the supply chain management.

The Group has adopted a system in its supply chain management to centralize the purchase of

materials, tools and machineries required by the PRC Plants. The Group has monitored closely the inventories of the materials and tools and constantly analyzed the consumption of the materials and tools. The Group has maintained a supplier list, which is evaluated and updated regularly. With these measures, the Group manages its supply chain smoothly.

Aspect B6: Product

The Group aims at providing its customers with the qualified products and has adopted a system to control strictly the manufacturing processes of its products and the product quality. All products are manufactured according to the specified procedures and are required to undergo a thorough quality inspection process in order to assure the products quality.

The Group's PRC Plants have maintained a customer service team to handle the enquiries about the products from the customers. The customer service team handles the customers' feedbacks and complaints according to the stated procedures.

The Group manages and protects its intellectual property rights through registration, maintenance and enforcement measures. The Group has made registrations for its trademarks in many countries over the world. Amongst others, the Group's famous trademark **LKM**[®] has been registered in more than 20 countries over the world. The Group would not tolerate any infringement of its intellectual property rights and would take legal action against such infringement.

Aspect B7: Anti-corruption

The Group's corporate culture is the important part of the Group's operating practices and the key components of the Group's corporate governance framework. They provide the guiding principles for the employees to perform justifiably and behave with integrity, uprightness and honesty. The Group's corporate culture puts all employees under stringent obligations as to the manner to which they should deal with the issues of bribery, conflicts of interest and compliance with the Group's policies and practices etc. Details of the Group's corporate culture are included in an employee's handbook distributed to each employee joining the Group. The handbook is also available on the Group's information portal for internal reference. The Group has provided anti-corruption training for the employees in order to reinforce their awareness of the Group's ethical standards.

The Group does not only require all its employees to behave with integrity but also requests its suppliers and business partners to observe the same ethical standards. The PRC Plants request the suppliers and business partners to execute the anti-bribery confirmation for urging them not to provide any benefits to the employees of the PRC Plants. The Group also prohibits all its employees from taking advantages of their powers and authorities for personal interests. The Group treats the issues on bribery, extortion, fraud and money laundering very seriously and complies with the laws of the place where the business of the Group carries on, to report the issues to the relevant Government authorities.

The Group has maintained a whistle-blowing system to allow whistleblowers to disclose information in relation to any misconduct, malpractice or irregularity through a confidential reporting channel. All the reported cases would be investigated in a fair and proper manner by the Internal Audit Department of the Group. The Internal Audit Department classifies the

reported cases according to their natures and reports the cases directly to the Board of Directors or the Audit Committee of the Group. The investigation reports of the reported cases are sent to the Audit Committee of the Group on a regular basis for review.

Community

Aspect B8: Community Investment

The Group is guided by its corporate culture of being a responsible business. The Group aims to achieve its business objectives within a framework of ethics and high standards, taking into account the needs of the communities in which the Group operates.

Most investments of the Group at the places where Group has business operations have lasted for more than a decade. The people and the assets of the Group are firmly embedded in the communities of such places. The businesses of the Group are closely intertwined with the social well-being of such communities. Thus, the Group places priority in creating value for the communities and make the meaningful contributions to the communities. The Group considers the unemployment rates of the local communities of the places where the Group has business operations and places priority for recruiting candidates from the local communities in order to relief the local employment pressure. The Group has actively involved in the local community greening construction in order to support the environmental protection policy of the local government.