

# Pentamaster International Limited

## 檳傑科達國際有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock code : 1665

### 2017 Environmental, Social and Governance report





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# INTRODUCTION

Pentamaster International Limited (the “Company”) is pleased to present its first Environmental, Social and Governance Report, covering the environmental, social and governance (“ESG”) impacts, policies and initiatives of the Company and its subsidiaries (collectively, “we”, “us”, “our” or the “Group”) for the year ended 31 December 2017. This report is prepared in accordance with Environmental, Social and Governance Reporting Guide as outlined in the Appendix 27 of the Main Board of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The Group is committed to ensuring long term sustainability of the Group’s businesses by embedding various ESG measures in the Group’s business operations.

# ESG APPROACH

The Group conducts its business activities ethically, in compliance with applicable laws, and regulations.

The Group's ESG strategy is determined at the board (the "Board") of directors ("Directors") of the Company which provides oversight of our ESG performance. We have established a process to collect data, monitor and report key ESG matters. The quarterly reporting cycle has also been established internally. We have set up a repository to retain all information collected, which is required for our ESG reporting. In 2018, the Group has a planned program that will incorporate selected ESG awareness and briefings to create a better understanding of what it has to take to adopt an effective ESG measure for the Group.

In 2018, our employee induction program will incorporate ESG policy and practices. The vendors' assessment procedure will also incorporate key ESG matters as part of the audit process.

# STAKEHOLDERS' ENGAGEMENT

Stakeholders are defined as parties that have interest in the Group and can either affect or be affected by the Group's business activities. We conduct periodic engagement with our various stakeholders because we recognise that their perspectives may be important in helping the Group to prioritise the actions for continuous sustainability improvement of the Group.

The following table summarises the Group's key stakeholders and how the Group engages them:

Stakeholders	Method of Engagement
Shareholders	<ul style="list-style-type: none"> <li>• Annual General Meetings</li> <li>• Corporate communication</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Employees briefings</li> <li>• Open communication via internal channels such as in-house emails, memos and open door policy</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Customers' surveys and feedbacks</li> <li>• Face to face meetings</li> <li>• Official websites</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Suppliers' audit</li> <li>• Suppliers' feedbacks</li> <li>• Suppliers' meetings</li> <li>• New suppliers evaluation procedure</li> </ul>
Government and Regulatory Authorities	<ul style="list-style-type: none"> <li>• Compliance with regulatory legislative framework</li> <li>• Workshops and seminar organised by relevant regulatory authorities</li> </ul>
Communities	<ul style="list-style-type: none"> <li>• Meeting with local communities</li> </ul>

# SUSTAINABILITY APPROACH

Creating and delivering sustainable values to the Group's stakeholders are fundamental to ensure the success of our business. We are committed to support the communities in which we operate in, reduce the negative environmental impact, develop sustainable products, monitor our supply chain, ensure customer satisfaction and support employees' development.

We maintain a high standard of governance that is important for our business in the long run. As at 31 December 2017, the Group has six directors, two of whom are female. Out of the six, four are non-executive directors, of which three are independent non-executive directors. All our board members have wide range of professional experience, contributing to the effectiveness of the Group business direction.

The Board of Directors is responsible to ensure good corporate governance. One of the Board functions is to provide independent and effective leadership to supervise the management of the Group's business and affairs, and to grow responsibly in a profitable and sustainable manner that is in the best interest of our stakeholders. The Board also develops and reviews the Group's policies and

practices on corporate governance including the Group's internal control and risk management framework.

The ESG monitoring is spearheaded by a dedicated ESG committee comprising members from different functional groups. This committee reviews and monitors the Group's ESG policies and practices on a regular basis, ensuring compliance with legal and regulatory requirements. It is led by the Group's Chief Financial Officer who reports to the Chairman. The ESG committee also regularly compiles and updates information on the ESG aspects of the business, such as matters relating to sustainability risks, sustainability management performances as well as recommendations and follow-up measures.

The Group has in place code of business conduct governing amongst others, issues relating to anti-corruption, insider trading, workplace harassment and discrimination, unfair treatment and conflicts of interests. Our code of business conduct applies to all employees.

The Board has also established a risk management committee which comprises the

Chairman, Chief Financial Officer and senior management to assist in monitoring the risk management process within the Group and is responsible for the establishment and the maintenance of a framework of risk management for the Group. Our risk management committee conducts meeting at least once a year. Our risk management and internal control system covers finance, operations, management information systems and compliance with relevant laws,

regulations, policies and procedures. With these, we have a clear overview of the adequacy and effectiveness of our internal controls and risk management system that would enhance our resilience and minimise the impact of any disruption to our business operations.

Further details of the Group's corporate governance practices can be referred to the Company's 2017 Annual Report.



# ENVIRONMENTAL

The Group understands the importance of ESG matters. The Group takes measures to protect the environment in which we operate through the implementation of an environmental management system at our factory. Subsidiaries of the Company have been certified with the ISO 9001:2015. Furthermore, our new production plant at Batu Kawan will be equipped with a clean room ISO Class 9 environment, a prerequisite for a number of potential customers in the medical device sector to facilitate our diversification into this sector.

In 2017, the Group has strictly complied with relevant environmental laws and regulations relating to emissions of greenhouse gas (“GHG”) and generation of hazardous and non-hazardous waste in Malaysia. The Group is not aware of any material non-compliance of the relevant environmental laws and regulations that have a significant impact on the Group.

## Emission

In 2017, the Group’s total emissions are summarised in table below:

Emission	Breakdown	Unit	Amount	Intensity <sup>(1)</sup>
<b>GHG</b>	Direct	<i>NO<sub>x</sub>, SO<sub>x</sub> and PM (tonnes)</i>	0.80	0.0029
	Indirect	<i>CO<sub>2e</sub> (tonnes)</i>	1,925.68	7.0890
<b>Hazardous waste</b>	Industrial wastage	<i>tonnes</i>	0.24	0.0009
<b>Non-hazardous waste</b>	Solid wastage	<i>tonnes</i>	140.75	0.5181

*Notes:*

- (1) *Intensity of emissions is calculated based on the amount of emission divided by the Group’s revenue (MYR’ million) in 2017.*  
 (2) *The above key indicators are not independently audited or verified, and it’s not part of the audited financial statements.*

Based on our experience of more than 20 years, the Group takes proactive measures to minimise emission. Product design takes into account on how resources could be maximised



without producing unnecessary wastage and emission. Simultaneously, new products will be assessed according to specific customer requirements, including improvement in product design.

The Group monitors closely both hazardous and non-hazardous wastages. The Group's products are mainly solution customised according to customers' specific need. To ensure that wastages are minimised, the Group only starts material procurement, assembly and programming once our suggested solution is approved by the Group's customers. The Group's quality assurance also helps in managing the reliability and quality of our products so we could prevent both wastages and non-compliance.

Hazardous wastages such as electronics waste, dry cells, printing cartridges and spoilt lightings are stored in the storage room prior to collection by a certified supplier that the Group engages regularly. Non-hazardous wastages were collected and stored safely before being collected for disposal from the factory premise.

## Use of Resources

As one of the global players that deliver high value-added integrated products and customised solutions at competitive price, the Group takes responsibility to ensure that any potential adverse impact of our operations on the environment are identified and addressed accordingly. The Group is well aware of climate change issues due to global warming and is committed to address it through the reduction of energy consumption and carbon emission. To further promote this exercise, a corporate-level committee has been set up for a number of years to drive the energy consumption reduction programs.

Some of the actions we have taken, have made significant improvements on energy efficiency, including:

- I. Replacement of all lightings to energy-efficient LED to reduce energy consumption;
- II. Installation of smart sensors in the factory to control our electricity usage such as lighting; and
- III. Reminder to employees to play a significant part in energy efficiency.

As a result of the above initiatives, the Group has enjoyed reduction in the cost of replacing light tubes as the LED lights have longer lifetime. Further, it reduces the hazardous wastages (*i.e. light tubes*).

The Group was not aware of any incident of non-compliance in 2017 with the relevant laws and regulations relating to environmental protection in the countries in which we operate that would have a significant impact on the Group.

In 2017, the Group's total use of resources are summarised in the table below:

Resources	Item	Unit	Amount	Intensity <sup>(2)</sup>
Energy <sup>(a)</sup>	Electricity	kWh'000	2,340.26	8.6152
Water <sup>(b)</sup>	Water	m <sup>3</sup>	46,659.00	171.7659
Others <sup>(c)</sup>	Packing Materials	tonnes	140.75	0.5181
	Papers	tonnes	2.08	0.0076

Notes:

- (1) Intensity of resources used is calculated based on the amount of resources used divided by the Group's revenue (MYR' million) in 2017.  
 (2) The above key indicators are not independently audited or verified, and it's not part of the audited financial statements.

Notes:

- a) Electricity is mainly consumed by the Group for operation and office use.
- b) Water is mainly for office use. The Group strives to minimise water pollution by monitoring usage of water regularly. We have also encouraged our employees to increase the awareness of environmental protection through water conservation. The Group did not encounter any issue in sourcing water. Going forward, the Group plans to establish a rain water harvesting system in order to conserve water.
- c) Our usage of other resources consists of paper which was mainly for office use and packing materials for our products.

The Group constantly encourages the employees to minimise the use of paper via the following initiatives:

- I. Encouraging employees to print less and/or print double-sided and/or print using recycled paper;
- II. Using non-paper visuals during meeting; and
- III. Using electronic approval.

The Group also takes initiatives by using recycled packaging materials from suppliers.

## Environmental and Natural Resources

The Group does not engage in any activities that has direct or significant impact on the natural resources in the course of its business operation.

In considering potential threats of climate change to environment, the Group has made steady progress in reducing its carbon footprints across its businesses. Emissions of GHG by the Group are mainly contributed by the consumption of electricity of machineries. Routine inspection on

the power supply is carried out to minimise the breakdown of machineries which in turn reduce production wastage and consumption of electricity.

Apart from the above, we employ multiple ways to reduce GHG such as installation of smart sensors in the factory building to control our electricity usage and encourage our staffs to minimise electricity usage. We also encourage our employees to take direct flights as opposed to taking transit flights as a way to reduce carbon emission.

Our new production plant in Batu Kawan, Penang will include a few smart sensors which are capable of controlling our electricity usage effectively and at the same time, increase production efficiency.

In addition to the measures above, the Group has also, implemented the following initiatives:

I. **3R Concepts** (*Reduce, Reuse and Recycle*)

The Group remains committed to ensuring that it plays its role in sustaining a greener environment. During the year under review, the Group continued with the recycling and waste management initiative where recycle bins are provided to spur waste segregation for proper recycling and disposal purposes. Going forward, the same initiatives of putting recycle bins will be included in our new production plant in Batu Kawan, Penang. Our employees are educated on the concept of “Reduce, Reuse and Recycle” which is an excellent way of saving energy and conserving the environment.

II. **“Cost With No Waste” initiative**

The Group is committed to make efficient use of its resources by not producing unnecessary wastage. The Group has implemented “Cost With No Waste” initiative since 2016 in ensuring no unnecessary wastage and impact in the ecosystem where it operates in.

# SOCIAL

## Employees

The Group is committed to the well-being of our employees who had played a major role in driving the growth of the Group over the years. We promote and foster conducive working environment such as open communication policy, so our employees stay motivated. Our employees are encouraged to be innovative to help foster interesting working environment.

Our employees are strictly bound by the Group's code of conduct which reflects the Group's culture and serves as a guide for our directors, managers and employees in their daily activities. It describes the values, principles and practices that guide our business conduct in the Group. This code of conduct reflects the objective of management to reinforce wide ethical standards to sustain a work environment that fosters integrity, care, respect and professionalism.



There are equal opportunities for employment and promotion for all staff at all levels. The Group believes that, regardless of gender, ethnicity, age, religious beliefs, nationality, marital status, sexual orientation and/or other aspects, employees can make significant contributions based on their merits, expertise, experience and dedication. In addition, the Group has zero tolerance towards sexual harassment in the workplace and does not condone any of such unlawful acts. We did not receive any report pertaining to any sexual harassment incident in 2017.

The Group has a well-structured and open annual performance appraisal system. Remuneration plays an integral part in the successful delivery of the Group's strategic objectives. Attracting, retaining and motivating talent is central to our remuneration strategy. Remuneration is benchmarked against the industry market rate and commensurate with individual qualification, working experience and ability. Salary and career development reviews are conducted on an annual basis to ensure competitiveness. Discretionary bonus and incentive shares are granted to eligible employees based on the Group's financial results and individual performance. Other employees' benefits include contributions to

mandatory contribution to employees' provident fund and medical subsidies.

The Group recognises the criticality in maintaining highly motivated and competent employees. Pursuant to the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited, eligible employees had

been selected to participate in the share award scheme. The objective of such share award scheme is to recognise contributions made by certain Directors and employees of the Group and to provide the eligible employees with incentives in order to retain them for the continual operation, growth and further development of the Group.



As of 31 December 2017, the Group had a total workforce of 400, of which 18.50% were female.

#### Total employment by age group and geographical region

	Below 30	30 to 49	Above 49	Total
Malaysia	48.50%	43.75%	2.25%	<b>94.50%</b>
Others	2.25%	3.25%	-	<b>5.50%</b>
<b>Total</b>	<b>50.75%</b>	<b>47.00%</b>	<b>2.25%</b>	<b>100.00%</b>

#### Total employment by employment type

	Permanent	Contract	Total
Malaysia	84.00%	10.50%	<b>94.50%</b>
Others	5.00%	0.50%	<b>5.50%</b>
<b>Total</b>	<b>89.00%</b>	<b>11.00%</b>	<b>100.00%</b>

#### Employee turnover rate

	Below 30	30 to 49	Above 49	Total
Malaysia	16.75%	5.00%	-	<b>21.75%</b>
Others	0.50%	0.50%	-	<b>1.00%</b>
<b>Total</b>	<b>17.25%</b>	<b>5.50%</b>	<b>-</b>	<b>22.75%</b>

In 2017, the Group has strictly complied with employment laws and regulations such as compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. The Group is not

aware of any material non-compliance of the employment laws and regulations that have a significant impact on the Group, and was not subject to any punishment by the government and was not involved in any lawsuit related to employment.

## **Health and Safety**

The Group is committed to provide and maintain a healthy and safe working environment for its employees. Occupational Safety and Health Committees (“OSHA”) organised quarterly safety audit and ensure continuous health and safety improvements in all of the Group’s business operations. Training sessions including emergency first-aid are provided to emergency response team and employee safety and health committee, and fire drill is carried out at least once a year within the Group’s premise.

As required by the relevant laws and regulations in Malaysia, we have OSHA to review the health and safety matters from time to time to oversee safety in the work environment and conduct regular internal meetings to discuss safety issues, review any recent industrial accidents and design any required remedial actions. An emergency response team was set up under purview of the OSHA to ensure that a quick response will be available to our people in the event of an emergency. Members of the team are given training on the use of first aid to be taken in the event of emergency.

In 2017, the Group has strictly complied with relevant laws and regulations relating to safe working environment and protecting employees from occupational hazards in the Group’s factory located in Malaysia. The Group is not aware of any material non-compliance of the relevant health and safety laws and regulations that have a significant impact on the Group and was not subject to any punishment by the government and was not involved in any lawsuit related to health and safety. During the year under review, the Group reported two cases of work injury, resulting in 25 lost days due to work injury.

## **Development and Training**

The welfare of the employees is also of paramount importance to the Group. To improve job performance and enhance job satisfaction, the Group constantly upgrades the employees’ skills, knowledge and experience by regularly organising external and internal training programmes.

During the year under review, the Group has organised trainings to all Directors and Company Secretary on the topics relating to the Listing Rules and other applicable regulations to ensure compliance and enhance their awareness of good corporate governance practices.

The Group also conducted internal and external trainings for some of the employees to improve work efficiency and better awareness of rules and regulations. In 2017, the Group’s employees ranging from senior management, engineers to administrative staffs had attended a total of more than 500 hours of training, that includes:

- I. 3D electrical design & modelling;
- II. AutoCAD Electrical 2017 Essentials;
- III. LabView Core 1 & 2;
- IV. Server Virtualization with Windows Server Hyper-V & System Center; and
- V. Tax Seminar (Budget 2018).

## **Labour Standards**

The Group has guidelines setting the procedures and standards on recruitment by the management and human resource team to ensure that it complies with local employment regulations. The guidelines are reviewed on a regular basis so as to ensure the consistency with any update of the relevant rules and regulations in all locations of our operations.

In 2017, the Group has strictly complied with the local employment laws and regulations and does not engage in any child or forced labour.

# OPERATING PRACTICES

## Supply Chain Management

We are committed in ensuring a good supply chain management system and a good procurement practice. Our procurement process encourages fair competition and applies a high level of objectivity and impartiality in supplier selection. Suppliers are selected mainly based on their financial stability, services, sustainability of supply, prices and management system. Together with our partners and more than 700 suppliers worldwide, we constantly look into improving our supply chain management processes to bring about a sustainable experience for our customers.

We believe in building close and long-lasting relationships with our partners and suppliers based on common ground and shared values.

Hence, we expect all our vendors to adhere to the same high standards for ethics, labour rights, health and safety, and the environment that we set for ourselves.

Further, as part of the Group's initiatives to improve supply chain ecosystem in Malaysia, the Group had in 2017, entered into a joint venture shareholders' agreement with Vitrox Corporation Berhad and Walta Engineering Sdn. Bhd. to establish a joint venture company known as Penang Automation Cluster Sdn. Bhd. This joint venture is to build a robust and reliable supply chain ecosystem in Malaysia that supports the local community and the industry's long-term strategic growth.

## Product Responsibility

The Group, being recognised as one of the renowned players that has worked with some of the top global companies, dedicates itself to ensure the safety of our products to our customers. We are committed to protect our environment while at the same time improve our production and cost efficiency. We aim to continuously deliver outstanding customised

solution to our customers. We also aim to minimise potential harm to the environment.

In line with our business model, which focuses on core technology, continuous innovation and provision of customised high value-add technology products and solutions to our customers, a project team with



members selected based on their relevant expertise and experience is formed for each project. In general, a project team consists of a project manager, production engineers and design engineers with expertise in areas such as robotics, mechanical engineering, vision inspection, control optimisation, optics, software automation and firmware programming. The project manager is also actively engaged with the customer to ensure the accuracy and quality of our solutions.

A project may originate from a customer's enquiry or at our internal development initiative to introduce new products and solutions to existing or potential customers. Based on client's requirement, we form a project team including engineers with expertise in relevant areas to come up with a conceptual proposal. The proposal is subject to further discussion and alignment before finalisation. In the event that the customer agrees with our conceptual proposal, a formal quotation is prepared based on our internal cost structure and profit margin determined by our management team based on product category in terms of technology involved, customer profile and historical patterns, if any.



To control the quality of our products and solutions, we only purchase from our approved suppliers who can meet our quality standards with on-time delivery record. Quality check of incoming materials is mandatory for fabrication parts, sheet metal parts and critical components. Once the machine and software are integrated, the project team examines the functionality by running and testing the products. The project team fine-tunes and aligns the products to ensure its functionality is in conformance with customer's specification.

In relation to our intellectual property or proposed solutions, security measures and confidentiality as well as non-disclosure agreements are implemented to maintain the confidentiality of proprietary information belonging to the Group and our customers. Non-disclosure agreements relating to collaborations with third parties are reviewed by the Company's legal team to protect the intellectual property. We also protect our stakeholders' data by ensuring data is only accessible to team members in charged while the team members' conduct is governed by our code of conduct.

In 2017, the Group was not aware of any incident of non-compliance with the relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters in respect of the use of the Group's products and services that would have a significant impact on the Group. We were also not aware of any material infringements by us of any intellectual property rights owned by third parties or by any third parties of any intellectual property rights owned by us.

## Anti-corruption

Our written code of conduct is in place to allow the Group to maintain high ethical standards and a workplace free from corruption.

All employees are expected to discharge their duties with integrity and to follow relevant local laws and regulations. The Group monitors closely the conduct of its management staff to prevent wrong-doings among the Board, senior management and staff, such as prohibiting transfer of benefits while considering new customers, suppliers or any project investment.

The Group had whistle blowing policy in place together with whistle blowing hotline. Any person may report allegations of suspected

serious misconduct or any breach or suspected breach of law or regulation that may adversely impact the Group, the Group's customers, shareholders, employees, investors or the public at large. The Group encourages each employee to speak up if there's any case of suspected corruption or bribery.

During the year under review, the Group has strictly complied with relevant anti-corruption laws and regulations relating to bribery, extortion, fraud and money laundering and the Group was not aware of any incidents on non-compliance with relevant laws and regulations.

## Support and contribution to communities

In its responsibility to society and the community in which it operates, the Group especially cares for the wellbeing of the underprivileged towards the betterment of their health and education. Our contributions, financial or otherwise, to activities for the benefit of the welfare of the community have been geared towards benefiting as many in the community as possible within our capacity.

Socially, the Group participates actively to raise funds towards the promotion of health awareness and for charities which provide care for individuals who suffer from debilitating illness. During the year, the Company contributed towards a fundraising cum publicity event "Charity Hunt 2017" organised by Charis Hospice on 22 April 2017, for its efforts to provide free palliative home care services to patients with advanced illness. The Company also made monetary

contribution to other organisations such as Mount Miriam Cancer Hospital and the Pulau Pinang Thalassaemia Society during the year to support the running costs of these centres established for the wellbeing of the needy and the less fortunate.

Besides charitable contributions to the welfare of the needy and the less fortunate, other support and contribution activities of the Group includes support of projects and events that promote environment, patriotism, education, and social needs designed to enhance quality of life. In keeping with our past programmes, the Company participated in the Penang Island City Council's 'Most Amenity Trees Planted in 24 Hours' programme in November 2017. The program was held with the intention to increase the number of trees that could absorb rainwater and strengthen the soil, mainly to protect the

environment and mitigate the effects of over-development in the past few decades.



Furthermore, on 15 September 2017, the Company participated in the “Raise the Flag” campaign, launched by the Star Media Group, by visiting Kwang Hwa School located in Sungai Nibong, Penang to celebrate Malaysia Day. The main objective of the campaign was to encourage patriotism among students in Kwang Hwa School by making mini flags from

the cut-out edition of local newspaper, “The Star”. The Group also made monetary donations to Kwang Hwa School during the year. Other support included monetary contribution to Heng Ee School and Chung Ling Private High School (both located in Penang) as their sponsors for various events and programs carried out in 2017.

Similar to previous years, the Group continues to support the internship program by providing industrial training to students from universities, colleges, polytechnics and other technical/vocational institutions. The Group had, on 16 February 2017 and 21 June 2017, hosted an educational visit by University of Santo Tomas, Philippines and an industrial educational tour for Universiti Tunku Abdul Rahman, Malaysia (Kampar Campus) for its Students, respectively.





**Pentamaster International Limited**

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