

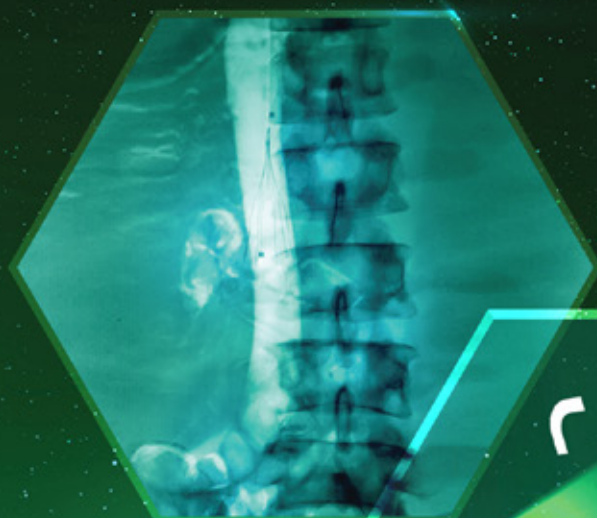
PENTAMASTER INTERNATIONAL LIMITED

檳傑科達國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1665

UNLEASHING INNOVATION FOR THE FUTURE



**ENVIRONMENTAL , SOCIAL AND
GOVERNANCE REPORT 2019**

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INTRODUCTION

Pentamaster International Limited (the “Company”) is pleased to present its third 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 2019. 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 (the "Directors") of the Company level 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 2019, the Group has a planned program that has incorporated 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 2019, our ESG reporting includes the reporting data from the newly acquired subsidiary, TP Concept Sdn. Bhd. ("TP").

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

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 2019, the Company 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's business direction.

The Board 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.

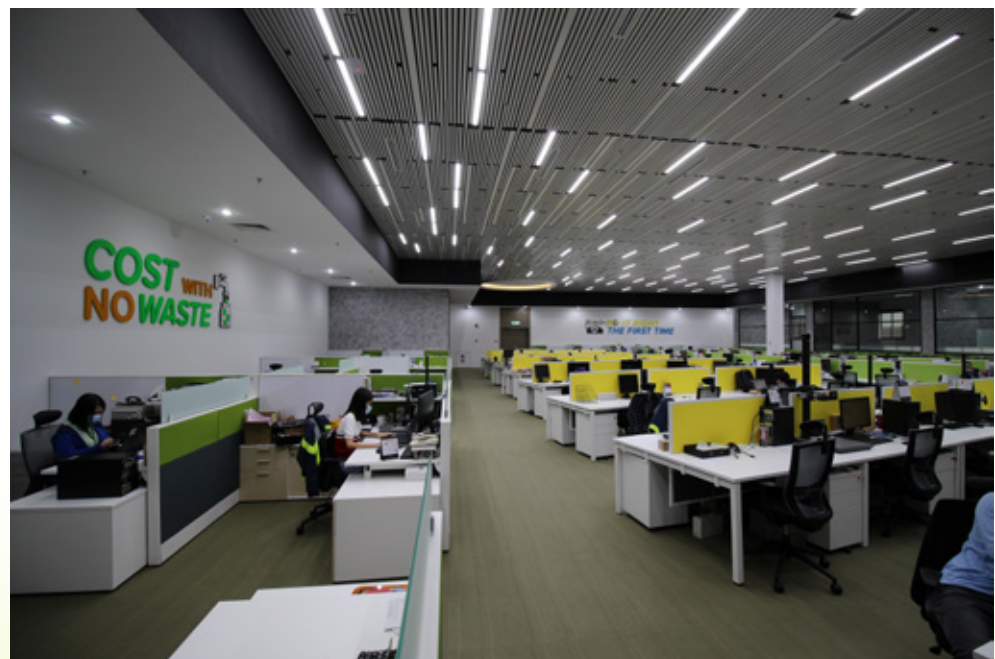
The Board has also established a risk management committee which comprises the Chairman, Chief Financial Officer and senior management to assist in monitoring the risk management process within the Group and is responsible for the establishment and the maintenance of a framework of risk management for 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 2019 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 production plant in Batu Kawan is 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 2019, 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 2019, the Group's total emissions are summarised in table below:

Emission	Breakdown	Unit	31 December 2019		31 December 2018	
			Amount	Intensity ⁽¹⁾	Amount	Intensity ⁽¹⁾
GHG	Direct	NO_x, SO_x and PM (tonnes)	1.03	0.0021	0.87	0.0021
	Indirect	CO_{2e} (tonnes)	3,327.75	6.8319	2,572.75	6.1682
Hazardous waste	Industrial wastage	tonnes	0.24	0.0005	0.24	0.0006
Non-hazardous waste	Solid wastage	tonnes	114.42	0.2349	168.90	0.4049

Notes:

- (1) Intensity of emissions is calculated based on the amount of emission divided by the Group's revenue (MYR' million) in 2019 and 2018 respectively.
- (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 premises.

Use of Resources

As one of the global players that delivers 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;
- (iii) installation of rainwater harvesting system; and
- (iv) 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 strives to reduce unnecessary usage of resources from time to time. In 2019, the Group has implemented more initiatives to reduce paper wastages such as going paperless during the Board's meeting. Prior to 2019, certain effort to support paperless initiatives include approval on the system without the need for hardcopy printout for certain procedures.

The Group was not aware of any incident of non-compliance in 2019 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 2019, the Group's total use of resources are summarised in the table below:

Resources	Item	Unit	31 December 2019		31 December 2018	
			Amount	Intensity ⁽¹⁾	Amount	Intensity ⁽¹⁾
Energy ^(a)	Electricity	kWh'000	4,095.46	8.4081	3,157.29	7.5697
Water ^(b)	Water	m ³	64,559.56	132.5419	55,808.00	133.8007
Others ^(c)	Packing Materials	tonnes	114.42	0.2349	168.90	0.4049
	Papers	tonnes	2.58	0.0053	3.76	0.0090

Notes:

- (1) Intensity of resources used is calculated based on the amount of resources used divided by the Group's revenue (MYR' million) in 2019 and 2018 respectively.
- (2) The above key indicators are not independently audited or verified, and it's not part of the audited financial statements.
- (a) Electricity is mainly consumed by the Group for operation and office use. The increase in electricity usage in 2019 was mainly due to the full year occupancy of Batu Kawan production plant in 2019 in addition to acquisition of TP.
- (b) Water is mainly for office use. The Group strives to minimise water consumption 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. The increase in water usage in 2019 was mainly due to the full year occupancy of Batu Kawan production plant in 2019 in addition to acquisition of TP.
- (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 our business operation.

In considering potential threats of climate change to the communities, 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 production plant in Batu Kawan, Penang includes 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. The same initiatives of putting recycle bins are adopted in our 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 reducing 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. The Group also offers equal employment opportunity to employees with certain disabilities and does not discriminate them from career advancement. To date, The Group has hired a few employees with certain disabilities. 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 2019.

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 the availability of an in-house child care centre to provide free child care services to all employees. This nursery sanctuary is aimed at providing a conducive and convenient working environment to the working parents and to promote employees' engagement.



The Group recognises the criticality in maintaining highly motivated and competent employees. As part of the long term plan to nurture and retain its key management and employees, the Company has undertaken a share award scheme to recognise contributions made by key management 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 2019, including workforce from TP, the Group had a total workforce of 591, of which 18.1% were female. In the event the workforce from TP is excluded, the total workforce of the Group would be 542 (2018: 505), of which 17.5% (2018: 17.8%) were female.

Total employment by age group and geographical region

	29 and below	30 to 49	50 and above	Total
Malaysia	49.5%	41.5%	3.5%	94.5%
Others	1.9%	3.6%	-	5.5%
Total	51.4%	45.1%	3.5%	100.0%

Total employment by employment type

	Permanent	Contract	Total
Malaysia	91.6%	3.0%	94.6%
Others	5.2%	0.2%	5.4%
Total	96.8%	3.2%	100.0%

Employee turnover rate

	29 and below	30 to 49	50 and above	Total
Malaysia	8.0%	3.0%	-	11.0%
Others	-	0.2%	-	0.2%
Total	8.0%	3.2%	-	11.2%

In 2019, 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 2019, 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 did not have any case of work injury (2018: one (1) case of 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. In 2019, the Group's employees ranging from senior management, engineers and administrative staffs had attended a total of more than 300 hours of training, that includes:

- (i) Geometric, Dimensioning & Tolerancing (GD&T);
- (ii) Design & Selection of Engineering Material;
- (iii) ISO 9005:2015 Interpretation and Application;
- (iv) Flexsim 3D Modelling & Process Flow; and
- (v) Installation & Maintenance of Uninterruptible Power Supply and Capacitor Bank.

The Directors recognise the need to continue to undergo relevant training programs to update their knowledge and enhance their skills where relevant to enable them to sustain their active participation as a Board member. During the year under review, all Directors participated actively in continuous professional development which included, among others, seminars, conferences, in-house trainings etc.

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 2019, the Group has strictly complied with the local employment laws and regulations and did 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 1,000 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.

On 16 January 2017, the Group had, as part of the initiatives to improve supply chain ecosystem in Malaysia, the Group via its subsidiary Pentamaster Technology (M) Sdn. Bhd., 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. ("PAC"). The joint venture is expected to build a robust and reliable supply chain ecosystem in Malaysia that supports the community's long-term strategic growth. PAC started their operation in second half of 2019.

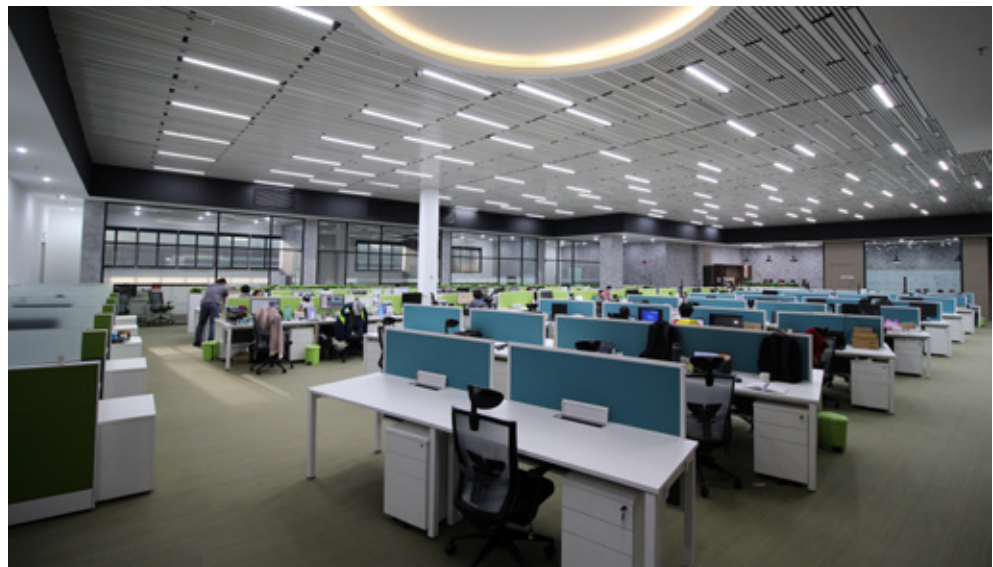
Product Responsibility

The Group, 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 2019, 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 channel. 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 is 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

Our responsibility to the community we live in goes beyond fulfilling a corporate obligation—it is a commitment we make because we truly believe we owe a large part of our success to the society in which we operate. In giving back, we pay special attention to the less privileged segment of our society.

The Group's initiatives are carried out by a community care manager whose core function is to identify causes where we can best contribute and effectively support. We have stepped forward to organise tuition classes at no cost, for students from underprivileged families. In addition to this, the less well-off are provided with food allowance as a means to alleviate their cost of living.



During the year, the Group made donations to Metro World Child, a global humanitarian organisation dedicated to serving children throughout various urban centres and rural communities around the world. Closer to home, the Group also made financial contributions to various organisations, orphanages and hospitals in the north region of Malaysia, among them Charis Hospice (Penang) and Federation of Malaysian Thalassaemia Societies ("FMTS"). Charis Hospice (Penang) is a non-profit organisation that offers free palliative home care services to patients with cancer and other advanced illnesses in Penang while FMTS provides support to thalassaemia patients.

In line with our belief that education is the key to the long-term betterment of life, we have financially supported several schools, including SMJK Heng Ee, Han Chiang High School, Kwang Hwa School, Chung Ling High School and SJK(C) Li Tek, as well as the Penang STEM StepUp Initiative. The Penang STEM StepUp Initiative is a programme aimed at sparking the interests of lower secondary students in learning STEM (science, technology, engineering and mathematics) and inspiring them to pursue higher studies and future careers in related fields.



The Group was also a sponsor for the Bursa Bull Charge 2019 Charity Run, an event organised by Bursa Malaysia aimed at raising funds to promote financial literacy and entrepreneurship as well as to help improve the environment and the lives of underprivileged communities.

We continued to support our internship program, providing industrial training to students from universities, colleges, polytechnics and other technical/vocational institutions, and have hosted educational visits from various learning institutions and schools, such as Universiti Utara Malaysia, Universiti Teknologi Mara and Chung Ling High School, during the year.





www.pentamaster.com.my

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