

PENTAMASTER INTERNATIONAL LIMITED

檳傑科達國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1665



**THRIVING AHEAD WITH A
SOLID FOUNDATION**

**ENVIRONMENTAL,
SOCIAL AND
GOVERNANCE
REPORT**

2021

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INTRODUCTION

Pentamaster International Limited (the “Company”) is pleased to present its fifth Environmental, Social and Governance (“ESG”) covering the ESG impacts, policies and initiatives of the Company and its subsidiaries (collectively, “we”, “us”, “our” or the “Group”) for the year ended 31 December 2021. 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 the Group's ESG performance. The Group has established a process to collect data, monitor and report key ESG matters. The quarterly reporting cycle has also been established internally. The Group has set up a repository to retain all information collected, which is required for ESG reporting. In 2021, 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 2021, Pentamaster Corporation Berhad, being the holding company of the Company, is included in the constituents of the FTSE4Good Bursa Malaysia Index where such index is a measure for public listed companies with strong environmental, social and governance practices.

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. The Group conducts periodic engagement with various stakeholders because the Group recognises 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"> • General Meetings (Annual / Extraordinary) • Corporate communication and investor relations
Employees	<ul style="list-style-type: none"> • Employee's 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 the Group's business. The Group is committed to support the communities in which the Group operates in, reduce the negative environmental impact, develop sustainable products, monitor the Group's supply chain, ensure customer satisfaction and support employees' development.

Board Diversity

The Group maintains a high standard of governance that is important for the Group's business in the long run. The Company believes that the Board diversity is crucial taking into account (including but not limited to) skills, knowledge, gender, age, cultural and educational background or professional experience. Meanwhile, the Company also considers other elements such as its own business models and specific demands from time to time.

The current Board's composition under diversified perspectives is summarized as below. All the Board members have wide range of professional experience, contributing to the effectiveness of the Group's business direction.

The current Board's composition under diversified perspectives is summarized as below:

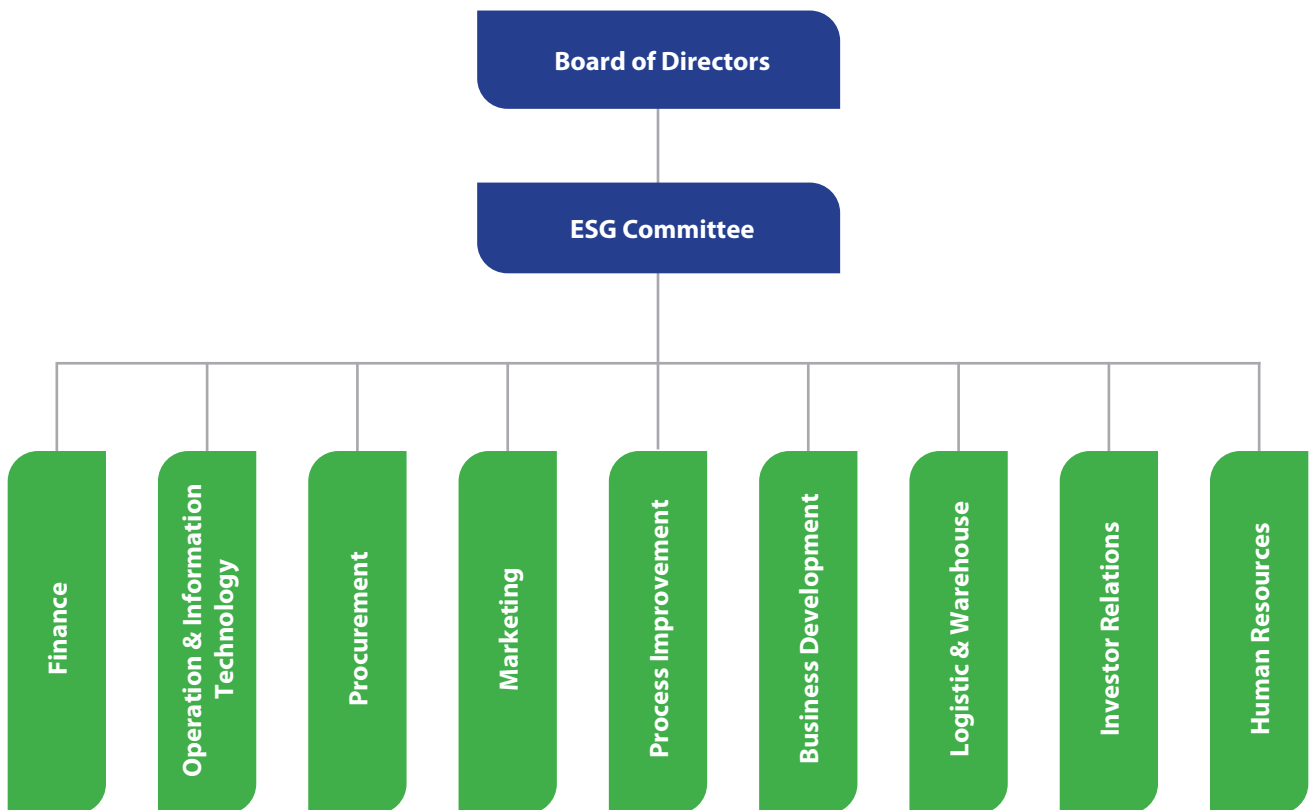
Name of Directors	Gender	Age Group			Educational Background and Professional Experience			
		40 – 49	50 – 59	60 – 69	Engineering	Law	Accountancy and Finance	Medicine
Mr. Chuah Choon Bin	Male			✓	✓			
Ms. Gan Pei Joo	Female	✓					✓	
Mr. Leng Kean Yong	Male	✓					✓	
Mr. Sim Seng Loong@Tai Seng	Male		✓				✓	
Dr. Chuah Jin Chong	Male			✓				✓
Ms. Chan May May	Female		✓			✓		

The Board is also 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 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.

ESG Management Structure

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. The ESG committee is led by the Group's Operation Director and Chief Financial Officer who report to the Chairman. Other responsibilities of the ESG committee include:

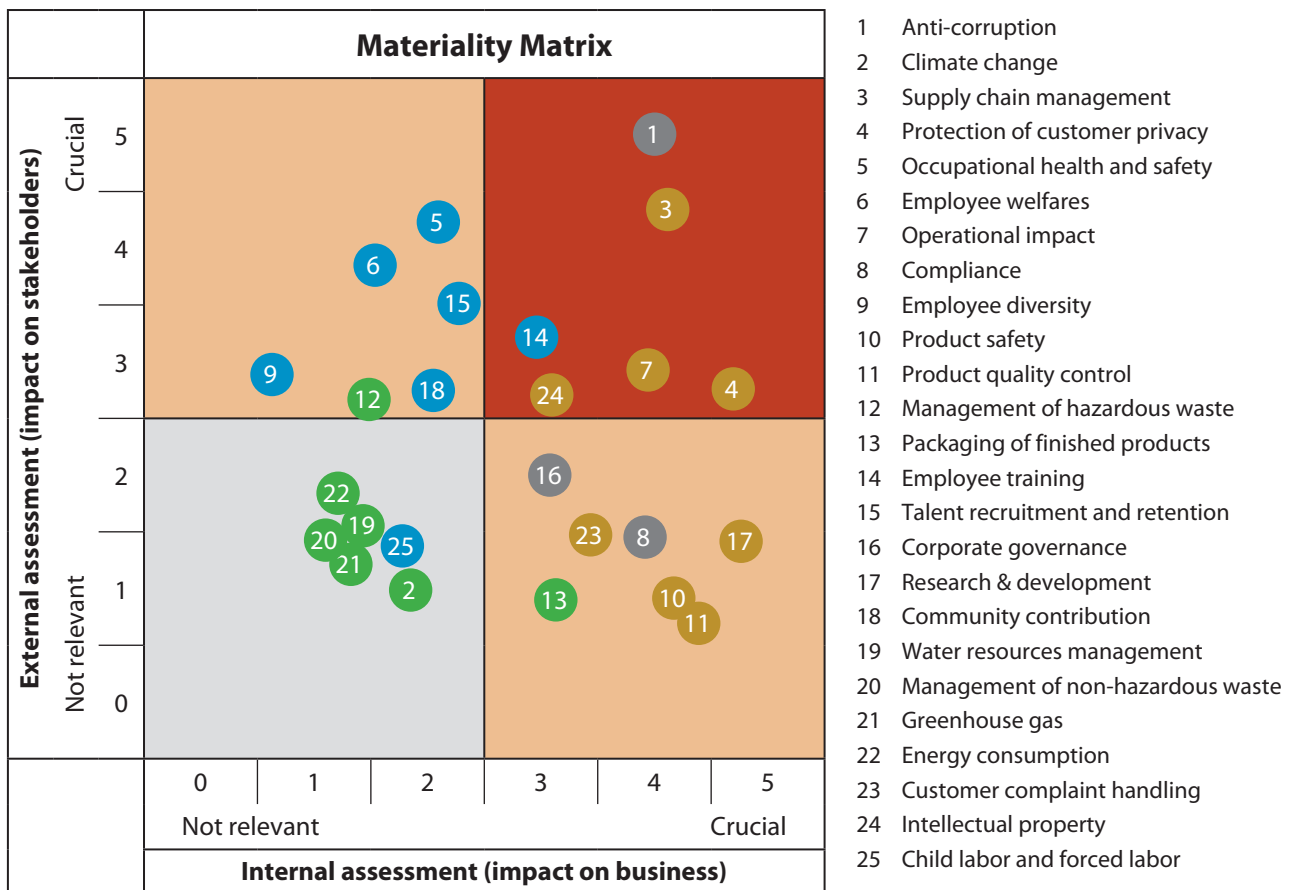
- (i) Oversee and execute the Group's sustainability strategy;
- (ii) Review and ensure proper disclosure and compliance with the relevant ESG Guidelines;
- (iii) Review the annual ESG risks;
- (iv) Present and regularly report to the Board on sustainability performance; and
- (v) Make recommendations to enhance sustainability strategies and practices.



Materiality Assessment

In 2021, the Group identified various key ESG issues that are material to the Group’s on-going business operation. The material ESG issues are deemed significant to the strategy and business of the Group, and the Group placed a priority in addressing the identified key ESG issues and provide key disclosures in this ESG Report.

In 2021, the Group analysed 25 related issues from two dimensions including their “impact on stakeholders” and “impact on business” and selected 11 highly important issues to be disclosed in this ESG report. These issues are anti-corruption, customer satisfaction, supply chain management, protection of customer privacy, occupational health and safety, employee welfare, employee training, operational impact, product quality control, intellectual property and product safety.



The Group has in place code of business conduct governing amongst others, labours and employee issues relating to anti-corruption, insider trading, workplace harassment and discrimination, unfair treatment and conflicts of interests. The Group’s 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. The Group's risk management committee conducts meeting at least once a year. The Group's risk management and internal control system covers finance, operations, management information systems and compliance with relevant laws, regulations, policies and procedures. With these, the Group has a clear overview of the adequacy and effectiveness of the Group's internal controls and risk management system that would enhance the Group's resilience and minimise the impact of any disruption to business operations.

Further details of the Group's corporate governance practices can be referred to under the Corporate Governance Report in the 2021 Annual Report.

The Group's social practices and policies took into account the employees' welfare, health & safety, personal development and anti-corruption. On the other hand, the Group's operating practices and policies addresses key risks such as supply chain management and product responsibility.

Key Performance Indicator ("KPI") Target

In setting up the KPI targets to support the Group's long-term sustainability strategy, the Group implemented environmental KPI targets endorsed by the Board, setting the year 2020 as the base year. Setting and disclosing these targets is a key to improving the Group's ESG performance and the overall sustainability of the Group's business in the long-term.

United Nations Sustainable Development Goals (“SDG”)

The Group has identified 7 SDGs which the Group believes having the most impact as a business through the Group’s operations, initiatives and programmes.

SDG	The Group’s View	The Group’s Efforts and Programmes	Reference
Goal 3: Good health and well-being Ensure healthy lives and promote well-being for all at all ages.	The Group takes any potential risk to the health and safety on the workplace seriously. The Group promotes health, safety and well-being at the workplace.	Workplace health and safety: The Group keeps the work environment safe for the Group’s employees. The Group has various sports recreational facility.	Page 18
Goal 4: Quality education Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	The Group views the progress, development and inclusion of employees and community through the support of education and skills development opportunities.	Staff training and development The Group invests in learning development for our employees to support the Group’s future business strategy. The Group also invests in the education for community.	Page 21-22
Goal 8: Decent Work and Economic Growth Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	The Group is committed to make the company a vibrant workplace among its employees.	Fair Opportunity The Group offers equal employment opportunity without discrimination for career advancement. The Group has zero-tolerance towards sexual harassment.	Page 16
Goal 9 Industry, Innovation and Infrastructure Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	The Group views innovation as priority for the Group’s future solutions across different business segments.	Research & Development The Group sets KPIs to develop new solution and/or improve the productivity of existing solution so they could better serve the customer.	Page 28
Goal 10: Reduced Inequalities Reduce inequality within and among countries	The Group is committed to creating equal opportunity for employees.	Equal opportunities There are equal opportunities for employment and promotion for all staff at all levels. The Group does not discriminate and values significant contributions based on merits, expertise, experience and dedication.	Page 16
Goal 12: Responsible Consumption and Production Ensure sustainable consumption and production patterns	The Group monitors waste management practices as part of the Group’s business operations.	Responsible waste management Electronic and packaging are sources of wastes generated across the Group’s operations. Hazardous wastages are collected by a certified supplier regularly.	Page 11
Goal 13: Climate Action Take urgent action to combat climate change and its impacts	The Group is committed to minimising environmental footprint across the Group’s business operations.	Reduction target The Group sets a target to reduce the intensity for greenhouse gas emission, and energy and water usage as a whole by 20% by 2030, stating 2020 as the base year.	Page 10-13

ENVIRONMENTAL

The Group understands the importance of ESG matters. The Group takes measures to protect the environment in which the Group operates through the implementation of an environmental management system at the factory. Subsidiaries of the Company have been certified with the ISO 9001:2015. At present, the production plant in Batu Kawan is equipped with an ISO Class 9 cleanroom environment, a prerequisite for a number of potential customers in the medical device sector to facilitate diversification into this sector. As part of the Group's plan to develop new business activity within the medical device segment, during the year under review, the Group has upgraded its existing ISO Class 9 cleanroom into ISO Class 8 cleanroom. The ISO Class 8 cleanroom started running its production in the second quarter of 2021.

As announced on 3 November 2021, the Group has acquired an industrial land in Batu Kawan, Penang measuring approximately 12 acres ("Plant 3"). The Group intends to invest in resource-efficient fittings and renewable energy equipment in Plant 3 such as solar-cell panels, rain-water harvesting system, lighting LEDs, and zoning and smart building automation sensors for better control of the use of energy for lighting and air-conditioning. Plant 3 will also include a few strategic and conducive communal areas which will be easily accessible to support and keep employees' productivity high. The communal spaces will also encourage more communication between inter-department and encourage innovative discussion.

In 2021, 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 2021, the Group's total emissions are summarised in table below:

Emission	Breakdown	Unit	31 December 2021		31 December 2020		31 December 2019	
			Amount	Intensity ⁽¹⁾	Amount	Intensity ⁽¹⁾	Amount	Intensity ⁽¹⁾
GHG	Direct (Scope 1) ⁽³⁾	NO _x , SO _x and PM (tonnes)	1.18	0.0023	0.95	0.0023	1.03	0.0021
	Indirect (Scope 2) ⁽³⁾	CO ₂ e (tonnes)	3,733.57	7.3483	2,890.79	6.9062	2,824.01	5.7977
Hazardous waste	Industrial wastage	tonnes	0.59	0.0012	0.30	0.0007	0.24	0.0005
Non-hazardous waste	Solid wastage	tonnes	108.39	0.2133	131.93	0.3152	114.42	0.2349

Notes:

- (1) Intensity of emissions is calculated based on the amount of emission divided by the Group's revenue (MYR' million) in 2021, 2020 and 2019 respectively.
- (2) The above key indicators are not independently audited or verified, and it's not part of the audited financial statements.
- (3) In accordance with The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard (Revised Edition) published by World Business Council for Sustainable Development and World Resources Institute, Scope 1 direct emission is a result from operations that are owned or controlled by the Group, while Scope 2 indirect emission is derived from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the Group.

Based on the Group's 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 the Group suggested solution is approved by the Group's customers. The Group's quality assurance also helps in managing the reliability and quality of the Group's products so the Group 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 are collected and stored safely before being collected for disposal from the factory premises.

The Group intends to reduce both the direct and indirect intensity of GHG as a whole by 20% by 2030, stating 2020 as the base year. The Group intends to encourage employees to opt for a more environmental-friendly vehicle that contributes to lower GHG emission. The Group plans to install more smart sensors that could help in mitigating power wastages.

The Group intends to seek lower production of hazardous and non-hazardous wastages as a whole by 20% by 2030, stating 2020 as the base year. The Group intends to continue to encourage employees to play a part in minimising unnecessary wastages. The initiatives may include opting for materials that could be recycled or reused, thereby minimising further wastages. The Group will also work with reputable suppliers that produce a more sustainable raw material.

Use of Resources

As one of the global players that deliver high value-added integrated products and customised solutions at a competitive price, the Group takes responsibility to ensure that any potential adverse impact of the Group's 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 addressing 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 the Group has taken, have made significant improvements on energy efficiency, including:

- (i) replacement of all lighting with energy-efficient LED to reduce energy consumption;
- (ii) installation of smart sensors in the factory to control 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 a reduction in the cost of replacing light tubes as the LED lights have longer lifetime. Further, it has reduced hazardous wastages (i.e. light tubes). In 2021, the Group opted to retire a split air-conditioning system and integrate it into the existing centralised air conditioning system. Centralised air-conditioning system is expected to contribute to more energy savings as compared to the split air-conditioning system.

The Group strives to reduce unnecessary usage of resources from time to time. The Group currently implemented more initiatives to reduce paper wastages such as going paperless during Board meetings. Certain effort to support paperless initiatives include approval on the system without hardcopy printout.

The Group was not aware of any incident of non-compliance in 2021 with the relevant laws and regulations relating to environmental protection in the countries in which the Group operates that would have a significant impact on the Group.

In 2021, the Group's total use of resources are summarised in the table below:

Resources	Item	Unit	31 December 2021		31 December 2020		31 December 2019	
			Amount	Intensity ⁽¹⁾	Amount	Intensity ⁽¹⁾	Amount	Intensity ⁽¹⁾
Energy ^(a)	Electricity	kWh'000	5,576.63	10.9758	4,169.88	9.9619	4,095.46	8.4081
Water ^(b)	Water	m ³	33,048.00	65.0441	36,115.40	86.2806	64,559.56	132.5419
Others ^(c)	Packing Materials	tonnes	108.39	0.2133	131.93	0.3152	114.42	0.2349
	Papers	tonnes	2.43	0.0048	1.73	0.0041	2.58	0.0053

Notes:

- ⁽¹⁾ Intensity of resources is a representation of resources used per the Group's revenue (MYR' million) in 2021, 2020 and 2019 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 the electricity usage and intensity in 2021 was mainly due to higher electricity consumed as the work-in-progress machines remain in the Group's premises for a longer time. The increase in the electricity usage intensity in 2020 was mainly due to a decrease in revenue caused by the pandemic which had curtailed the overall Group's revenue.
- ^(b) Water is mainly for office use. The Group does not have any issue in sourcing water for consumption. The Group strives to minimise water consumption by monitoring usage of water regularly. The Group has also encouraged employees to increase their awareness of environmental protection through water conservation. The decrease in water usage intensity in 2021 & 2020 was mainly due to re-piping done in conjunction with the renovation of the Group's production plant towards the end of 2019 resulting in lesser water leakages. The decrease in 2020 was also due to lesser water consumed as the Group implemented an initiative to work from home to curtail the impact of COVID-19 pandemic.
- ^(c) Usage of other resources consists of paper which was mainly for office use and packing materials for the Group's products. In 2021, the Group has lower intensity of packaging materials as a result of the Group's effort to use lesser packaging materials and avoid any wastage as compared to the previous year. The increase in packing materials intensity in 2020 was mainly due to more packaging materials used for the factory automation solution segment. The products from the factory automation solution segment are generally bigger in size as compared to the automated testing equipment segment which typically requires more packaging materials to be used.

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 meetings; and
- (iii) Using electronic approval.

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

The Group intends to reduce the intensity of energy and water usage by 20% by 2030, setting the year 2020 as the base year. Further details on conserving electricity usage are described above. Reducing the usage of water is the main priority by implementing various robust measures to rely on rainwater harvesting and encouraging employees to reduce waste.

Environmental and Natural Resources

The Group does not engage in any activities that have direct or significant impact on the natural resources in the course of business operation. The Group takes very seriously any climate-related issues that may impact the Group's operation and communities, and strategises actions to manage these potential issues.

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, the Group employs multiple ways to reduce GHG such as installation of smart sensors in the factory building to control electricity usage and encourage staff to minimise electricity usage. The Group also encourages employees to take direct flights as opposed to taking transit flights as a way to reduce carbon emissions.

The production plant in Batu Kawan, Penang includes a few smart sensors which are capable of controlling electricity usage effectively and at the same time, increasing 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 the production plant in Batu Kawan, Penang. The Group's 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.



In 2021, the Group's operation was baffled by the pandemic. Global lockdown and the slowdown across economies have resulted in supply chain crunches.

Last year, Malaysia suffered floods in several parts of the city in Malaysia, highlighting extreme weather patterns accelerated by climate change. Although flood never occurred in our production plant based in Penang, as part of our ongoing strategy to build natural resilience, and in preparation for greater disclosure aligned to the Task Force on Climate-related Financial Disclosures (TCFD) framework, we have done a preliminary internal assessment to understand our current operating condition, assessing physical and transitional risks from different climate change scenarios. In the future, we plan to replicate this exercise across the Group's future production plants in different parts of the geographical region.

In the event of occurrence of natural hazards such as floods, the Group will carry out disaster response and recovery operations in line with the Group's Business Continuity and Disaster Response & Recovery Plan policy. The human resource team will be tasked to inform all employees regarding the magnitude of disasters, evacuation, work arrangements and any pertinent questions in regards to medical benefits or human resources related issues. The respective division manager will also be responsible to coordinate activities among his team members in the event of emergencies (including evacuation). In the event that a major natural disaster affects the Group's operation severely, the disaster recovery team aims to get the operation back within 24 hours (server, data, operating system software and backups).

The Group backups its operational data regularly and procedures handled by its management information system operational team. Backups are programmed on a daily basis to the offsite server and tested on a quarterly basis to ensure the backup data is working appropriately. Backup data is available offsite and can be called on immediately in the event of system disruption.

In addition, the Group has adequate insurance coverage that protects against business interruption including but not limited to natural disasters such as floods or storms as well as fire perils which will result in consequential losses on the production plant and equipment, or on the Group's stocks and materials.

Employees

The core of the Group lies on its employees, being the biggest and most important asset. Therefore, creating a culture where employees feel valued, safe, comfortable and motivated is important. The Group is committed to the well-being of employees who had played a major role in driving the growth of the Group over the years. The Group promotes and fosters conducive working environment such as open communication policy in order for the employees to stay motivated, and engagement among various teams, levels and departments. The Group's employees are encouraged to be innovative to help foster interesting working environment.

The Group's employees are strictly bound by the Group's code of conduct which reflects the Group's culture and serves as a guide for Directors, managers and employees in their daily activities. It describes the values, principles and practices that guide the Group on how it conducts its business. 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 against them from career advancement. In 2021, the Group has hired employees with certain disabilities and have made certain adjustment to the condition of workplace to enable employees with certain disability to work. In addition, the Group has zero tolerance towards sexual harassment in the workplace and does not condone any of such unlawful acts. The Group did not receive any report pertaining to any sexual harassment incident in 2021.

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 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. During the year under review, the Group did not breach the requirement for minimum wage.

The Group's working condition is also accommodative to working parents. The day care centre is provided and managed in-house. Flexible working arrangement is also given in the event of an emergency and the need for working parents to attend to the child.



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, Pentamaster Corporation Berhad, being the holding company of the Company, implemented the share award scheme during the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. Further, on 1 April 2020, the Company adopted a share award scheme which is valid and effective for a term of ten years to serve as part of the Group's employee retention program in retaining its existing employees and to attract suitable personnel for further development of the Group.

As of 31 December 2021, the Group had a total workforce of 689 (2020: 612; 2019: 539), of which 18.3% (2020: 17.2%; 2019: 17.5%) were female.

Total employment by age group and geographical region

	Below 30	30 to 49	50 and above	Total
Malaysia	42.7%	44.0%	6.2%	92.9%
Others	2.7%	4.1%	0.3%	7.1%
Total	45.4%	48.1%	6.5%	100.0%

Total employment by employment type

	Permanent	Contract	Total
Malaysia	90.0%	2.9%	92.9%
Others	7.1%	0.0%	7.1%
Total	97.1%	2.9%	100.0%

Employee turnover rate (age)

	Below 30	30 to 49	50 and above	Total
Malaysia	11.2%	6.2%	0.2%	17.6%
Others	0.1%	0.6%	0.0%	0.7%
Total	11.3%	6.8%	0.2%	18.3%

Employee turnover rate (gender)

	Male	Female	Total
Malaysia	14.9%	2.7%	17.6%
Others	0.6%	0.1%	0.7%
Total	15.5%	2.8%	18.3%

In 2021, 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 penalty by the government and was not involved in any lawsuit related to employment.

Health and Safety

The Group is committed to providing and maintaining 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 the emergency response team and employee safety and health Committee, and a fire drill is carried out at least once a year within the Group’s premises.

Certain measures are implemented by the Group to ensure safety and healthy workplace is maintained such as:

- (i) Signages and markings;
- (ii) Personal protective equipment: eye-protection and body harness kit; and
- (iii) Ceiling-based power points and compressed air facility.



Signages and markings are put in place to remind employees to adhere to the safety standards at all times around the Group's premises. The ceiling-based power points and compressed air facility are installed to prevent injuries such as cable tripping.

As required by the relevant laws and regulations in Malaysia, the Group has 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 the Group's 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. The Group's Operation Director oversees the OSHA including the progress of health and safety condition in the Group's premises. The Group's Operation Director reports any issues to the Board.

In 2021, 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 penalty by the government and was not involved in any lawsuit related to health and safety.

If there is a reported work injury, the case would first be referred to the project leader to investigate the cause of injury. A separate note would be raised and documented by the Human Resource Department to prevent similar work injury happening in the future. During the year under review, the Group has 2 cases of work injuries contributing to 65 lost days (2020: 2 cases of work injuries; 2019: nil). The Group does not have any work-related fatalities in the past 3 years including the reporting year.

To promote a healthier work environment, the Group has a sports facility such as multipurpose court and indoor rock climbing to encourage employees to participate in sport activities. In 2021 and 2020, due to the COVID-19 pandemic, no sports program was held.

COVID-19 Initiatives

The Group's operation was disrupted by the unprecedented COVID-19 pandemic in most of 2020 and 2021. The COVID-19 pandemic has dramatically and fundamentally altered the way people live and work. From social distancing, quarantine, closed borders, travel bans to the buzzword "home office" have never been mandated on such a large scale.

In making sure that the Group is able to contain any issues arising from the COVID-19 pandemic in the production plants, the Group has implemented various measures such as:

- (i) Staff & Visitor Management: standard procedures for visiting and social distancing;
- (ii) Cost Management: reimbursement of COVID-19 test;

- (iii) Crowd Management: creating standard operating procedures to avoid unnecessary gathering or physical meeting;
- (iv) Time Management: allocating various time slots for breaks;
- (v) Health Management: sanitisation and disinfection;
- (vi) Meeting Management: virtual meeting; and
- (vii) Personal Protection Management: wearing face mask.

On 6 July 2021, the Deputy Minister of Human Resources together with representatives from the Department of Occupational Safety and Health (DOSH), Department of Labour Peninsular Malaysia (JTKSM), Ministry of Health Malaysia (MOH) and Royal Malaysia Police (PDRM) visited the Group's production plant to do routine checks on companies as part of the National Recovery Plan for COVID-19 standard operating procedures ("COVID-19 SOPs").

The Deputy Minister of Human Resources witnessed the Group's compliance with the COVID-19 SOPs and the Occupational Safety and Health Act 1994 (Act 514 and Act 342), and called for other industries to emulate the COVID-19 SOPs and compliance practised by the Group.

The Group will implement additional measures when necessary to prevent the spread of COVID-19 pandemic.



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.

The Group acknowledges the importance of engaging the employees in continuous skill development. On a regular basis, the head of department is tasked to identify the list of courses required to be offered among the staff of the Group. The Group also places importance in expanding its medical devices division where continuous training was organised for selected employees in this division.

During the year under review, the employees with managerial title and above are required to attend the essential skills for managerial success course so they are able to manage juniors. The managers are also trained to handle reports of bullying and harassment.

In 2021, the Group's employees ranging from senior management, engineers and administrative staffs had attended a total of more than 220 hours of training that includes:

- (i) ISO 13485:2016 - Quality Management System for Medical Devices;
- (ii) Medical Devices Software;
- (iii) VHDL Hardware Description Language for Expert;
- (iv) Performance Tuning and Optimizing AQL Databases & Basic Optics;
- (v) Employer's tax statutory obligations; and
- (vi) Budget 2022.

The summary of employees training in 2021 is as follows

Total cost of training (MYR'000)	67
Total number of hours of training received by employees	292
Percentage (%) of employees who received training	8.4%
By gender:	
Male	8.0%
Female	10.3%
Average hours of training per employee (Overall)	
By gender	
Male	18.8
Female	17.8
By employee category	
Manager	21.3
Administration Personnel	20.8
Engineering Personnel	25.3
Technician Personnel	8.0

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 includes, 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 consistency with any update of the relevant rules and regulations in all locations of operations.

In 2021, the Group has strictly complied with the local employment laws and regulations and does not engage in any child or forced labour.

In accordance with the Group's recruitment policy, the Group strictly does not practise hiring any Child in any operating countries or implement Forced Labour.

"Child" means any person who is under the age of 15 years old.

"Forced Labour" means all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily

The minimum age allowed for recruitment in the Group is at least 18 years old. Any person who has attained the age of 15 years old and under the age of 18 years old might be hired subject only to apprentice contract or vocational training.

In compliance with local law, the Group observes standard working hours and implement overtime pay to those who work beyond the normal working hours. While the Group provides flexibility in the work arrangement, employees are encouraged to manage their working hours so they do not have to work overtime.

Anti-corruption

The Group's 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 has adopted an Anti-Corruption Policy which sets out parameters to prevent the occurrence of bribery and corrupt practices in the conduct of the Group's business. This policy provides information and guidelines to all Directors and employees of the Group on the standard of behaviour which they must adhere to and how to recognise and deal with bribery and corruption. In accordance with the Anti-Corruption Policy, all existing employees will receive regular and adequate training on the Group's position regarding anti-corruption and bribery, integrity and ethics to ensure their thorough understanding of Anti-Corruption Policy, especially in relation to their role within the Group.

The Board recognises the importance of whistleblowing where a programme has been introduced for the employees to channel concerns about illegal or unethical business conduct affecting the Company. If an employee has concerns about illegal or unethical business conduct in the workplace, the concern can be reported through an appropriate channel and the outcome will be reported at the Company's Audit Committee meetings.

The Anti-Corruption Policy and Whistleblowing Policy of the Group are available on the Company's website.

In the past 3 years up to the year under review, the Group does not have any legal cases regarding corrupt practices.

Communication with Shareholders and Investors

The Group is committed to creating value for minority shareholders and acting in their best interest through regular engagement.

The investor relations ("IR") team engages with shareholders and investors regularly, meets frequently with institutional investors and sell-side analysts, and responds to inquiries in a timely manner. The Group proactively discloses information on the Group's operations through business briefings and participation in conferences hosted by financial institutions and securities companies. The Group also cooperates with financial institutions and securities companies to hold briefings for institutional and retail investors. The latest quarterly results and quarterly financial presentation are available on our website.

On a regular basis, the Group discloses information about our operation and future plan in local news agencies. The Group will continue to disclose information appropriately to meet the needs of stakeholders and investors, thereby increasing understanding of the Group's business.

ECONOMIC & OPERATING PRACTICES

Products Overview

As disclosed in the 2021 Annual Report, the Group is a leading global provider of advanced automation equipment and systems. Throughout the years, the Group is proud to have developed solutions for some of the global renowned technology houses. As compared to the past where the Group's offering is mostly catered for the telecommunication sector, today, the Group is serving customers across different segments such as the electro-optical, automotive, consumer and industrial product, semiconductor and medical devices segment.

In line with the Group's business model, which focuses on core technology, continuous innovation and provision of customised high value-add technology products and solutions to the Group's customers, the Group emphasises on delivering high-quality products.

A project may originate from a customer enquiry or an internal development initiative to introduce new products and solutions to existing or potential customers. The Group's senior technical personnel first communicates with the customer to understand project specifications and requirements. Based on the information obtained, the Group forms 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. The project manager is also actively engaging with the customer after project completion to ensure the quality of after-sales services.



Supply Chain Management

The Group is committed to ensuring a good supply chain management system and a good procurement practice. Procurement processes encourage fair competition and apply a high level of objectivity and impartiality in supplier selection.

The Group believes in building close and long-lasting relationships with partners and suppliers based on common ground and shared values. Hence, the Group expects all vendors to adhere to the same high standards for ethics, labour rights, health and safety, and the environment.

On 16 January 2017, the Group had via its subsidiary, Pentamaster Technology (M) Sdn. Bhd., as part of the initiatives to improve the supply chain ecosystem in Malaysia, 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 its operation in the second half of 2019.

Supplier Engagement & Procurement

In general, the Group's major suppliers are mainly manufacturers, agents and distributors for: (i) fabricated parts made of metal or plastic; (ii) sheet metal parts for machine structure; and (iii) standard components such as pneumatics, motors, sensors, switches and power supply, whilst other suppliers include subcontractors to whom the Group outsources the wiring and assembly tasks involved in manufacturing process. The Group is dependent on reliable sources of materials to maintain the quality and timely delivery of products and solutions

Based on the list of materials required for each project, the procurement department conducts materials planning via an enterprise resource planning system that controls the materials inventory. For materials readily available in the inventory, the procurement department generates internal job orders to release such materials from inventory to manufacturing. Otherwise, the Group purchases materials from suppliers.

To control the quality of products and solutions, the Group only purchases from approved suppliers who can meet quality standards with on-time delivery record. In addition, the Group may conduct random sampling or comprehensive check on the quality of materials received from the suppliers. Quality check of incoming materials is mandatory for fabrication parts, sheet metal parts and critical components. The quality check includes, but is not limited to, visual inspection on the material appearance, dimensional check as well as fitting test with mating parts. Materials failing the quality check are rejected and returned to the suppliers for rework or replacement.

As for the process of identifying a new supplier, the Group's procurement department will carry evaluation on the quality of products delivered by the new supplier in accordance with the Group's Procurement Policy.

The Group maintains a list of approved suppliers for each type of sourced items. The criteria to qualify as an approved supplier of the Group are set out below, among others in accordance with the Group's Procurement Policy:

- (i) the supplier must be a legally registered business entity;
- (ii) the supplier must have stable financial conditions;
- (iii) the supplier must be able to provide service and respond to enquiries effectively;
- (iv) the supplier must be able to provide sustainable supply; and
- (v) the supplier must be able to provide competitive prices for the items it supplies.

All suppliers are required to apply for the registration as an approved supplier prior to any engagement. The applications are subject to the approval by the manager of procurement department, chief financial officer and Directors according to the criteria set out above. Once approved, the supplier will be registered on list of approved suppliers. The Group maintains a diverse group of suppliers and does not rely on any single source. At the end of 2021, the Group has more than 1,400 approved suppliers.

The Group sources its materials and parts predominantly from local suppliers. In 2021, The Group's purchases from local suppliers constituted approximately 67.9% (2020: 70.6%; 2019: 72.0%). By geographical supplier distribution, Singapore, China, United States, Germany and Korea were the top five procurement markets for the Group in 2021, with its contribution of more than 80.0%. The overview of the geographical supplier distribution in the past 3 years up to 2021 is as follows:-

	2021	2020	2019
Singapore	20.7%	26.1%	34.0%
China	19.1%	6.0%	3.4%
United States	16.3%	26.7%	20.5%
Germany	16.0%	14.1%	13.9%
Korea	9.1%	6.1%	4.1%
Hong Kong	5.5%	8.7%	10.1%
Taiwan	3.3%	5.3%	6.3%
Others	10.0%	7.0%	7.7%
Total	100.0%	100.0%	100.0%

In accordance with the Group's Supplier Assessment Policy, the procurement department conducts annual assessment on major suppliers based on the quality of items supplied, record of on-time delivery, service performance and pricing. Any supplier with a poor rating under the assessment will be subject to request by the procurement department for improvement or discontinuation of engagement in the future.

Product Responsibility

The Group, recognised as one of the renowned players that have worked with some of the top global companies, dedicates itself to ensuring the safety of products to customers. The Group is committed to protecting environment while at the same time improving production and cost efficiency. The Group aims to continuously deliver outstanding customised solutions to customers. The Group also aims to minimise potential harm to the environment.

In line with the Group's business model, which focuses on core technology, continuous innovation and provision of customised high value-add technology products and solutions to 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 solutions.

The Group placed a high importance to deliver high-quality customised product solution to customers. In fulfilling customers' requirements and anticipating future demand in technology solution, the Group's research and development team goes hand-in-hand together with the main project team to develop the solution. The research and development team also sets KPIs to develop new solution and/or improve the productivity of existing solution so they could better serve the customer. The intensive research and development activities, has contributed to a higher number of proprietary solutions and as a result, more intellectual properties ("IP") are being filed. The Group has submitted applications to register several of its trademarks and affirmed the relevant statutory declarations in respect of the copyrights of certain software products.

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

The Group proposed solution over the years was also contributed from its customers sharing proprietary information about the technology behind its end products. As such, the Group takes the utmost priority in protecting its customer's privacy and data. Customer's privacy and data are categorised based on the sensitivity of the information and the harm that could arise from mishandling. The security measures associated with consumer data, both in physical and electronic format are restricted by user access. Putting an access control will ensure data is protected in this regard controlling the permitted access, modification and/or deletion rights in relation to different categories of customers' data. Access control also restricts data to be transferred out of the Group's database and the activation of audit logs enables authorised and unauthorised access to data to be traced.

In 2021, 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. The Group was also not aware of any material infringements of any intellectual property rights owned by third parties or by any third parties of any intellectual property rights owned by us.

The Group generally provides customers up to a one-year warranty on products upon customer buy-off, except for (i) the warranty of standard components is usually one year from the date of manufacture; and (ii) the warranty of fabrication parts varies depending on their respective lifespan.

During the warranty period, the Group offers free service and support to customers in terms of product maintenance and replacement of relevant components or modules (excluding consumable parts i.e. those subjected to wear and tear).

Customer complaints are typically directed to the project team. In accordance with the Customer Complaint Procedure Policy, upon receipt of customer complaints, the relevant project team is required to respond to customers within 2 working days. The e-customer complaint process is initiated by lodging an 8D report inside the Group internal system. The relevant project team proceeds to investigate the complaint thoroughly and engages with customers closely to solve the complaint. The relevant project team is required to submit a containment plan to customers and implement it accordingly in not more than 14 days. However, in the event the complaints extend beyond 14 days, the relevant project team will continue to engage with the customers to work within a reasonable timeline to fix the complaints. In 2021, the Group received 1 complaint and it was settled in less than 14 days (2020: 3 complaints and all were settled in less than 14 days).

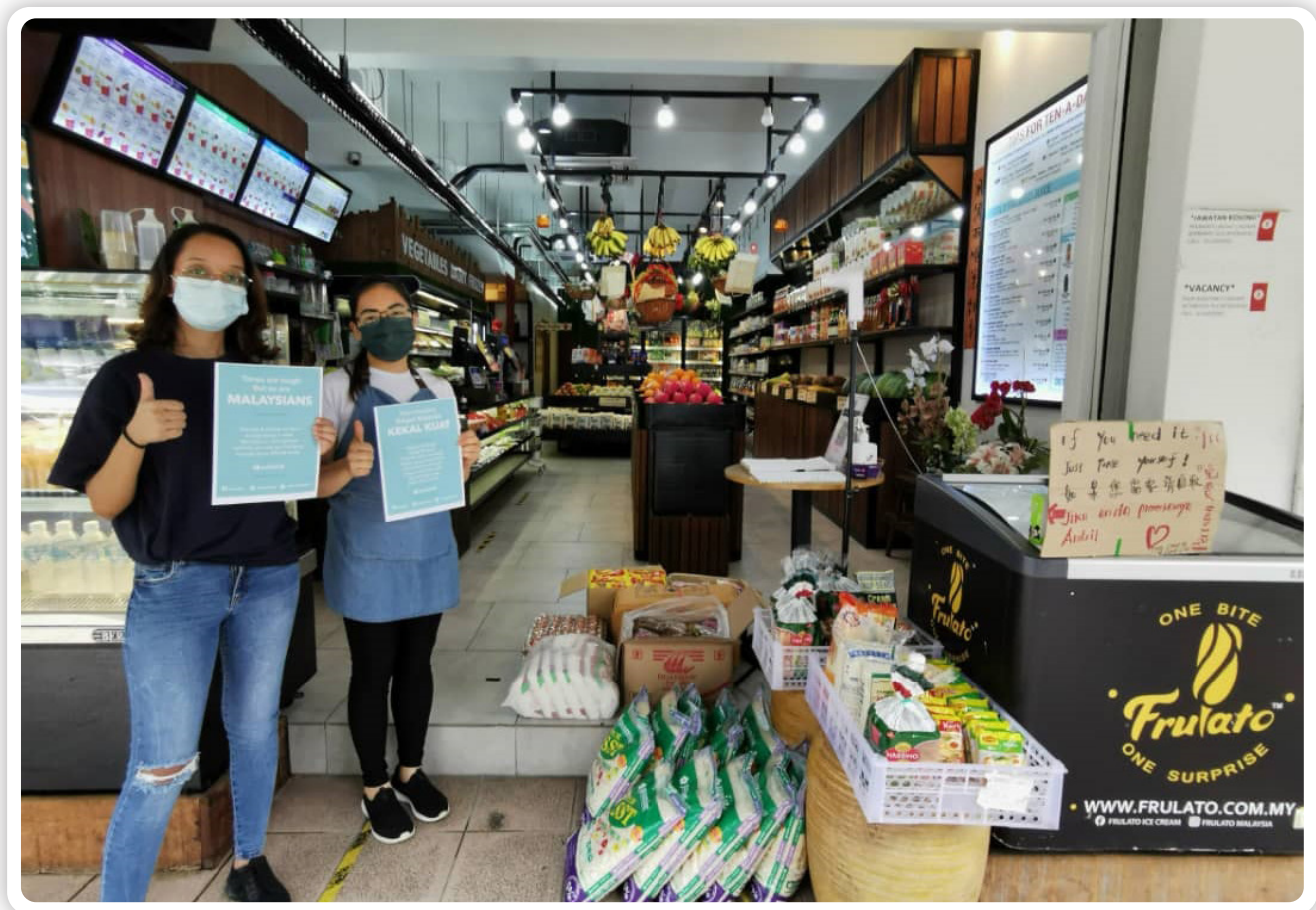
Quality assurance of outgoing products is performed before shipment and customer buy-off. The quality assurance mainly involves various inspections on the conformance of product with specifications and product trial running to ensure its stability and robustness. Products failing the quality assurance are fine-tuned and further enhanced to ensure they meet the customer's requirements before shipment and customer buy-off. As the case may be, certain customers may choose to attend the quality assurance at the premise. The Group's stringent quality control process is recognised with the accreditation of ISO9001:2015.

If there is a product recall, the relevant project team shall investigate and lodge an 8D report inside the Group internal system to identify the issue within 14 days. Where necessary, the research and development team shall be included to identify the issues. In 2021, the Group did not have any product recall for safety and health reasons.

Support and contribution to communities

The Group's responsibility to the community where the Group lives in go beyond fulfilling a corporate obligation—it is a commitment the Group makes because the Group truly believes the Group owes a large part of the Group's success to the society in which the Group operates. In giving back, the Group pays special attention to the less privileged segment of the Group's society. In 2021, the Group has contributed a total of approximately MYR152,000 (2020: MYR145,000; 2019: MYR319,000) to the communities

The Group's initiatives are carried out by a community care manager whose core function is to identify causes where the Group can best contribute and effectively support. The Group has 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.



The year of 2020 and 2021 have been highly disruptive by the unprecedented COVID-19 pandemic with its pervasive effect causing worldwide spreading and thereby hampering global economic situation with declaration of public health emergencies in many countries and regions.

In addressing, the COVID-19 pandemic, the Group took proactive measures throughout the year, such as:

- (i) Providing used-computer to schools and charity homes to support e-learning;
- (ii) Donating oxygen concentrator to local hospital;
- (iii) Donating a vehicle to the caring centre; and
- (iv) Providing financial assistance to individuals and schools.

The Group made various donations to support a few non-governmental organisations (“NGO”). One of the NGOs came with an objective of helping the poor and the needy in the community by providing food and educational aid. The Group also supported an NGO that is dedicated in promoting hospice and palliative care in Asia and the Pacific. Hospice and palliative care is a form of providing comprehensive comfort care as well as support for the family in alleviating life-threatening illnesses. Lastly, the Group is also extending financial support to animal shelter.



In line with the Group's belief that education is the key to the long-term betterment of life, the Group has donated to several local schools. The Group continues to support the internship program to young graduates to support their interest in developing career in the semiconductor sector. The Group also provides industrial training to students from universities, colleges, polytechnics and other technical/vocational institutions. The Group is committed towards local employment and hires most of its employees locally. As the Group's operation is predominantly based in Malaysia, 93% of its employees are locals.

The Group is also very supportive towards developing the local business community. The Chairman of the Group is actively involved in sharing his expertise and advices to nurture small businesses and start-ups.



PENTAMASTER INTERNATIONAL LIMITED


檳傑科達國際有限公司

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