

INTRODUCTION

The Group continuously invests into the future by providing innovative, quality and reliable products. While bringing new product to the market, the Group also implements environmental and social initiatives to achieve the goal of long-term sustainability. The Group strives to integrate the sustainability development into its business to increase the competitiveness of its business. The Board is pleased to present the second "Environment, Social and Governance Report" that demonstrates the internal control system and sustainable development efforts of the Group.

The report delivers the commitment and practices of the environmental, social and governance performance of the Group for the year ended 31 December 2017. The report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules.

STAKEHOLDERS ENGAGEMENT

The Group believes that the better management of stakeholders' expectation is more likely to gain support and trust. Stakeholders are identified and various communication channels are used to engage with them on regular basis. Through these engagements, the Group is able to prioritize the action to be taken for strategic development.

ENVIRONMENTAL PROTECTION

Any operation that depletes the future resources has certain environmental impact. The Company is classified as low emission industry by the Dongguan Tangxia Environmental Protection Department* (東莞塘廈環保分局). The Group's commitment is to minimize the environmental impact throughout the operation. The Company manages the environmental impacts and resources by identifying the major environmental matters in respect of all production segments. Procedures are established and performance indicator is closely monitored. Actions are taken in response to the challenges. There was no suspected case of environmental related violation during the year.

Emission and Energy Consumption

To minimise emission is the Group's long-term goal. The Group strives to achieve better environmental performance by investing into new technology and improving its daily operational practices. Electricity is the major energy source in its operation. Energy management center is set up to analyze and monitor energy used in production lines. Equipment with energy saving features is prioritized upon replacement. Solar powered water heating system is installed in the office and dormitory.

The production facility was expanded in 2017 and as a result, the greenhouse gas and electricity consumption increases while the intensity lowered. Company vehicles were replaced in 2017. Upon purchase of vehicles, fuel efficiency is taken into careful consideration. Electrical forklifts are gradually replaced to reduce fuel consumption.

	Unit	2017
Total Greenhouse gas emission (Scope 1 & 2)	CO ₂ e tonnes	10,246
Scope 1 Direct emission	CO ₂ e tonnes	16
Scope 2 Indirect emission	CO ₂ e tonnes	10,230
Electricity consumption	kwh	11,418,518
Nitrogen Oxides (NOx)	g	11,946
Sulfur Oxides (SOx)	g	106
Particulate Matter (PM)	g	1,037

* For identification purpose only

Water Consumption

Water is not substantially consumed in medical device production. Our water consumption is mainly for the office and household use. We are committed to reduce the use of natural resources. Staff are reminded to conserve water wherever possible. Treatment of waste water is governed by the local regulator. A total of 73,958 liters of water were consumed in the year.

Packaging Material and Waste Management

The Group recognizes that the material purchased and the waste generated are causing direct impact to the environment.

Quality of materials is of great importance to the business. Therefore, there are limitations when selecting materials. We work with suppliers to achieve the long-term sustainability goals. Please refer to the paragraph headed "Supplier Management" below for more details. Carton boxes and plastics are used for product packaging and transportation.

Packaging material used	Unit	2017
Paper/ Carton boxes	tonnes	737
Plastic	tonnes	113

Wastes are sorted in accordance with National Hazardous Waste List. Recyclable materials such as plastics and papers are collected separately to be used elsewhere. Hazardous wastes are stored in covered containers and collected by the licensed contractor.

Waste generated	Unit	2017
Non-hazard waste	tonnes	230
Hazard waste	tonnes	0.81

Environmental Education

We rely on our staff's support on the environmental protection. Trainings are provided for new employees and refresher training is also organized to recall and reinforce the previously acquired knowledge. We take actions to protect the environment and at the same time, we also try to be environmental friendly in the community. Our staff brought their family members to participate in the clean-up campaign and other environmental activities during the year.



Staff participated in clean-up activities in the neighborhood park

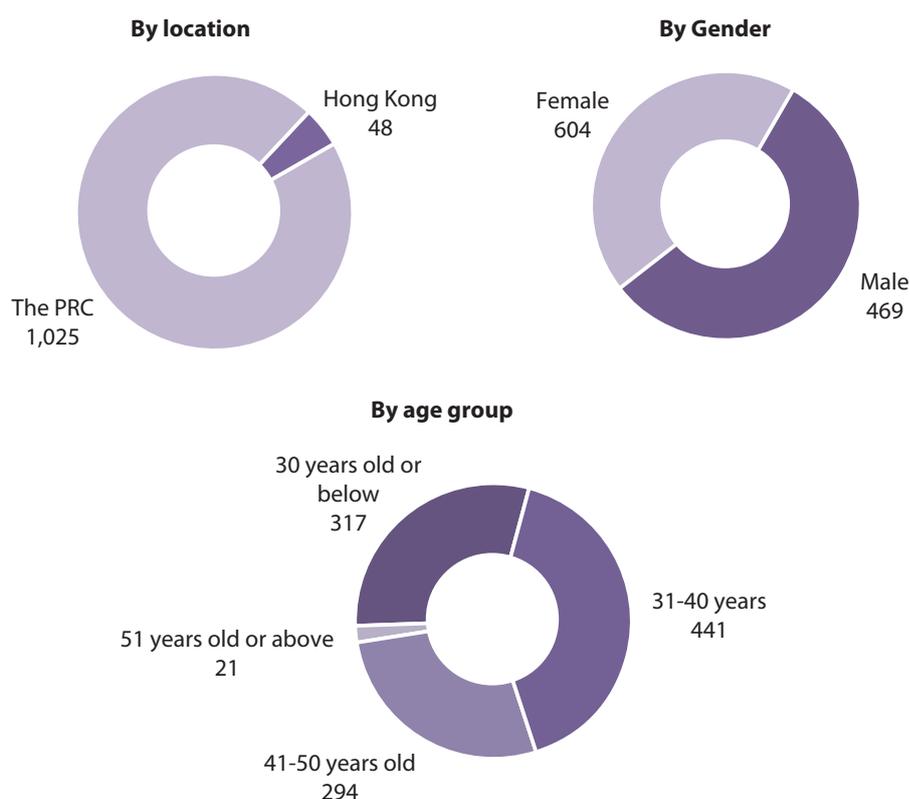
CARING OUR STAFF

Employment and Labour Practices

Staff are the Company's valuable assets. The Company's competitiveness relies on staff efforts. We strive to provide a suitable and welcomed working environment. The Company appreciates diverse working culture. Recruitment is mainly based on the candidate's capabilities and the needs of the business. Other factors such as age, gender, background are not the selection criteria. Equal opportunities are given for training and promotions. Policies and procedures are formulated in accordance with National and Regional Labour Law. There was no report in relation to compensation and dismissal, recruitment and promotion, equal opportunities, diversity, as well as discrimination during the year.

There is a total of 1,073 staff in 2017. The team is young and energetic with the majority below the age of 50. The Company believes that product quality is the core of our business, as all staff are full time employee, therefore stable and high quality of our products can be maintained.

Team structure



Staff remuneration is mainly depend on market conditions and the position held. The Company offers a competitive remuneration but we understand that it is not enough. Fringe benefits are offered to staff and social gatherings are also organized so as to promote work-life balance. A green working environment with plantations and recreation facilities are provided at the Dongguan production sites.

The Company welcomes new staff to join the energetic team. Trainings and friendly orientation are organized to help them adapt to the new working environment. However, we regret that some staff choose to leave the Company. The employee turnover rate in 2017 was 7.2%. (Male/Female: 47/53; the PRC/Hong Kong: 98/2; Aged 30 or below/31-40/41-50/51 or above: 69/21/10/0). Interviews were carried out to understand the reason for their leaving.

Training and Development

It is necessary for staff to equip with new knowledge and technology to keep up with the competitive market. The Company wishes to advance together with the staff. Annual training plan is established as needed. The human resources department takes the responsibility to conduct survey in each year to find out the needs from staff.

The Company encourages its staff to share among themselves the work-related knowledge. Management, engineer and related staff are invited to provide tailor-made training. The business environment is ever changing. To keep up with the market, we support our staff to participate in training provided by external provider so as to capture the latest information. Due to the business expansion, training hours in 2017 increased by 1.7 times compared to 2016, in which a total of 33,550 hours are used. The training covers diverse topics including regulations and product safety.

Training Distribution

By Gender	Number of people	%
Male	877	45
Female	1,085	55
		<u>100</u>

By employment category	Number of people	%	Number of hours trained	%
Senior Management	6	0.31	16	0.05
Middle Management	107	5.45	3,527	10.51
General Staff	1,849	94.24	30,007	89.44
		<u>100.00</u>		<u>100.00</u>

The Company continues to seek talented staff for the business growth. The appraisal system is established as a platform for staff to discuss with their supervisor regarding their needs and expectations. The Company also uses this opportunity to identify high-caliber. Job rotations are offered to retain talents. Internal staff are first considered for filling job vacancies.

Health and Safety

The Company takes the responsibility to ensure the staff working in a safe environment. Occupational health and safety policies and procedures are adopted during the course of production. Safety committee comprising safety managers from various business units is established and is responsible to formulate the safety strategy and procedures that fit in for the business. Potential risks are identified. Noise control measures and fire-alarm control policies are formulated. Suitable personal protective equipment is provided as needed. Regular safety audits and inspections are conducted across the production facilities. Machineries are checked on regular basis to ensure proper functioning.

Some products need to be manufactured in highly sanitized environment. The Company keeps high level of hygiene control at the production facilities. All staff are required to have body check regularly to make sure that they are fit for work. For those staff failed in the body check, they will be immediately suspended from work or arranged with suitable job duty. Ventilation system is installed for improving indoor air quality. Production areas are cleaned regularly.

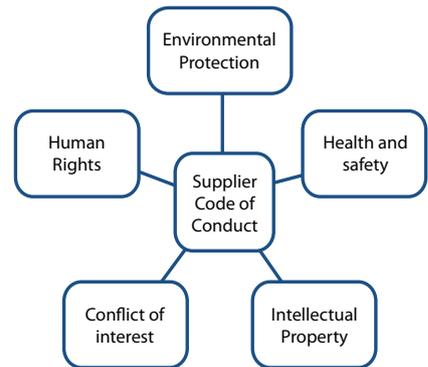
During the year, there was no work-related fatalities. Five accidents occurred in the production facilities and as a result, a total of 336 man days were lost due to the accidents. The Company provides immediate support to the injured staff. Intensive investigation was carried out after each accident in order to prevent from recurrence. Many of these injuries can possibly be avoided. Warning signages are marked and protective equipment are provided as needed. We promote safety culture and instilling safety mind-set to our staff. Safety training are conducted for all new staff. Additional training is organized for staff upon their change of job duties to ensure that they are fully aware of the working procedures.

Labour Standards

Children should at their age enjoy their childhood. No children are allowed to work in the Company. Identity check as a measure is intermittently carried out to ensure no employment of any underage youth. It has been noticed that long working hours decrease the productivity but increases the risk of accident. The Company is fully aware of the importance of work-life balance. Production schedule is arranged conscientiously to avoid over time work. Employees are entitled to enjoy statutory holidays and different types of paid leave. We neither encourage nor force the employees to work overtime. Workflow will be reviewed when a large amount of overtime work comes to notice. Labour union is established and all staff are welcomed and free to join. Staff can voice their opinion freely. Apart from the monthly meeting with the Company representatives, communication channels such as emails, phones and face-to-face interviews are also arranged as needed.

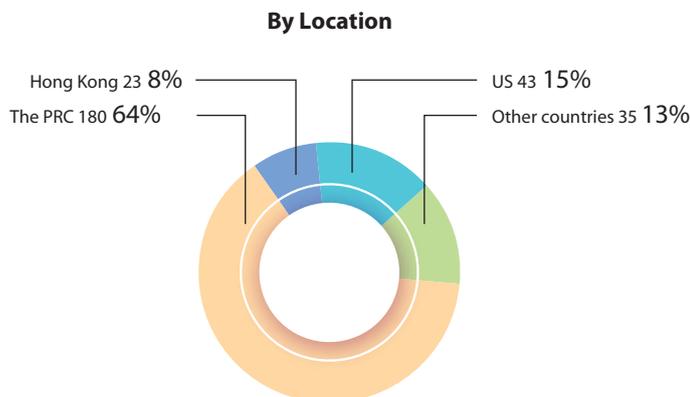
SUPPLIER MANAGEMENT

The Company operates on the basis of trust, cooperation, honesty and mutual respect. We believe our honest attitude can bring about influence throughout the supply chain. We maintain long-term partnership with suppliers to achieve the goals. Engagement is made with suppliers on the same principle. Supplier social responsibility code of conduct is shared with all valuable suppliers.



Materials and service are sourced worldwide. Price is not the only consideration for our selection. Members of the evaluating team carry out on-site evaluation especially on the suppliers' quality standard, environmental protection and social responsibilities. Detailed supplier management guideline is established. Regular review and assessment are in place to ensure that the supplies meet our requirements.

Supplier Distribution



PRODUCT RESPONSIBILITY

Product quality is the core of medical device manufacturing business. Defective products may cause serious consequences to the end users or patients. The Company fully complies with the related regulations and standards within our business scope, but we are not just satisfied with this. We seek to abide by the laws and regulation for further improvement. The Company has obtained Medical Device Quality Management System ISO 13485 and Risk Management for Medical Device ISO 14971. We will continue to review all the necessary processes for continuous improvement. It is an ongoing process to evaluate the cause and to enhance the quality control system and risk management framework, thus enabling the Company to adopt a proactive and structural approach to manage risk from conceptual stage to post market services.

Quality Assurance

Quality assurance is important throughout the production process. We consider that the raw material has a great influence on the final product. Starting from the purchase, all purchase must be made with the approved suppliers. Suppliers are required to provide certificates and testing reports for validation of their supplies. Quality department oversees validating the different types of materials. Validating report are documented. Quality check are not only for the finished products. Inspection and monitoring are carried out in the whole production chain.

Some of our products required to be manufactured in highly sanitized environment. The production facilities are specially designed to maintain hygiene levels and other instability outside the production room. In order to provide a good working condition, all staff must follow the rules and show good personal hygiene.

Product Recall and Complaint Handling

During the year, there is total sales of 49 million pieces from our range of products. There are no products recall or return due to the reasons relating to safety issues. The Company received from customers enquiring about the products from time to time. The cases were handled and recorded in detail according to the prescribed procedures. We value all feedback from customers. Investigations must be conducted with a view to fact finding and improvement.

Intellectual Property Rights

The Company has invested time and effort for today's achievement. Product design and development have the greatest value. Inspired Medical is the self-owned OBM business brand. Unauthorized use of brand name may cause harm to the business and bring about a bad image of the Company. As a precaution, the Company has applied for trademark for its design and products. In 2017, 43 trademarks were registered. We fully understand that the laws and regulations are to protect the Company rights. Close communication is built with the business partners to protect our property rights.

Data Privacy

Our customer and suppliers are from around the world. The Company has developed the data privacy policies and procedures. Internet and emails are one of the effective communication channels. Latest software is updated on computer to avoid data leakages with spyware. Designated personnel are assigned to handle the confidential information. Guidelines are provided to staff for handling confidential information.

ANTI-CORRUPTION

Business ethics has a great influence on the performance and brand images. The Company takes the responsibility of maintaining the highest business ethics to avoid any improper activities. The anti-corruption procedures help the Company ensures the business operation abide by the PRC and Hong Kong law and regulations. Procedures are updated whenever there are changes made in the law and all members of the Company are required to comply with the code of conduct.

To help our staff understand our standpoint in anti-corruption and to make correct decisions, the Company has organized integrity training program to strengthen the staff's awareness. Specified training is arranged for areas with high risk in corruption. Measures such as whistle blowing channels and penalties are clearly implemented. There was no suspected case of anti-corruption during the year.

COMMUNITY INVESTMENT

Business development is closely connected with the community. The Company uses its strength and resources in the development of the community. We believe that there are many areas which require our help and it is not just limited to financial support. Staff devote themselves to community service by setting up volunteer group and partner with local charitable organization in providing direct assistance to the community. The volunteer group provides a platform for our staff to contribute time and skills to support those in needs. A range of activities with different focuses were organized during the year such as rubbish collection in the nearby park, blood donation, community visit to elderly home stay. There was a total of 692 hours spent for the activities and a total donation of HK\$ 65,000. In future, the Company will continue to use its resources to support in improving the community.



Blood donation



Community visit to elderly home

