

# SUSTAINABILITY STATEMENT

## I. OUR APPROACH ON SUSTAINABILITY

Sustainability has always been a part and parcel of Kossan's culture as we strive to achieve continual financial performance and uninterrupted growth.

Recognising the ever-increasing relevance of sustainability in our business value, our maiden statement on sustainability aims to illustrate our strategic approach to address sustainability challenges and opportunities in contributing towards the betterment of the business, environment and society.

Through the Group's stakeholder engagements, we have identified and grouped three key themes of sustainability practices in which the Group is positioned to add value i.e. sustainable business growth, environmental stewardship, and social responsibility.

To further elaborate Kossan's sustainability endeavour and commitment, this Sustainability Statement is structured into four sections. The first section gives an overview of and highlights the scope of this Statement. The second section sets out the Group's governance structure in managing the material sustainability matters while the third section records the processes that we have undertaken to identify and prioritise the material matters. The fourth section reports on the Group's practices and performance in managing the material sustainability matters.

### Scope

Unless otherwise stated, the Sustainability Statement for Year 2016 covers two of Kossan's business divisions i.e. Gloves and Technical Rubber Products ("TRP") in Malaysia which collectively contributed 96 per cent of the total sales revenue for the financial year ended 31 December 2016.

## II. SUSTAINABILITY GOVERNANCE

The responsibility to promote and embed sustainability in Kossan's business strategy lies with the Board of Directors. This is also in line with Recommendation 1.4 of the Malaysian Code on Corporate Governance 2012. To this end, a Sustainability Working Group ("SWG") was set up by the Board in October 2016 to oversee the incorporation of sustainability in the Group's businesses, as well as to prepare the Group for its inaugural sustainability disclosure.

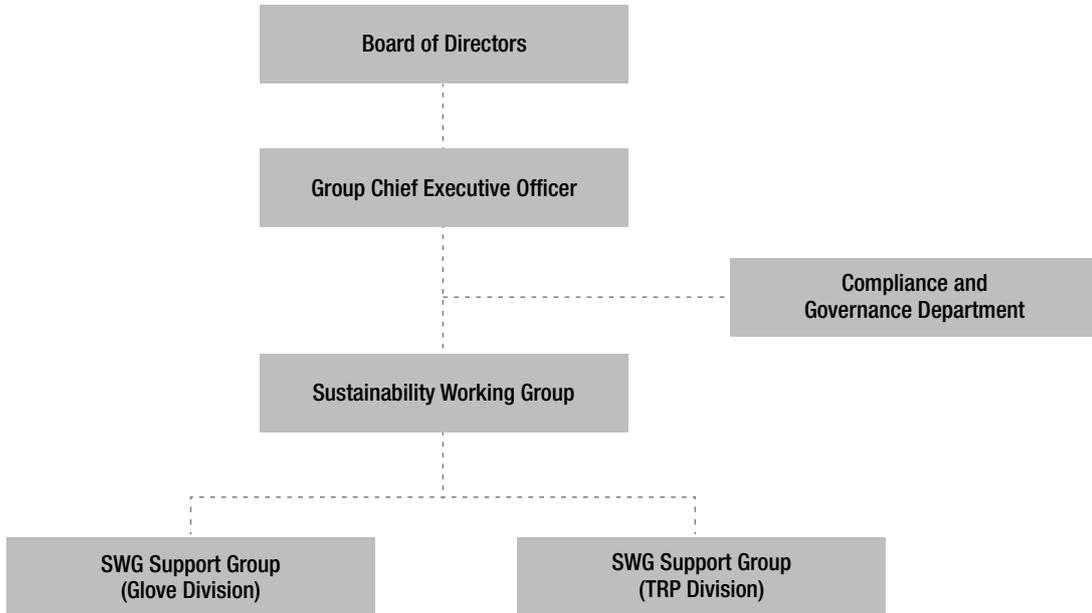
The primary objective of the SWG is to facilitate the preparation of the Sustainability Statement for inclusion in the Annual Report, as required by the Bursa Malaysia's new Listing Requirements. Chaired by the Group Chief Executive Officer, the SWG also comprises Executive Directors and General Managers of the respective functional units and also SWG support groups from the strategic business units of the Glove and TRP divisions.

Among others, the responsibility of the SWG includes overseeing the following:

- Stakeholder engagement process (e.g. identification of key stakeholders and engagement with stakeholders);
- Materiality assessment (e.g. identification of sustainability risks relevant to the Group's business, risk/opportunity assessment on sustainability risks, and identification of material sustainability risks);
- Oversee the management of material sustainability matters identified; and
- Preparation of sustainability disclosures.

## II. SUSTAINABILITY GOVERNANCE (CONT'D)

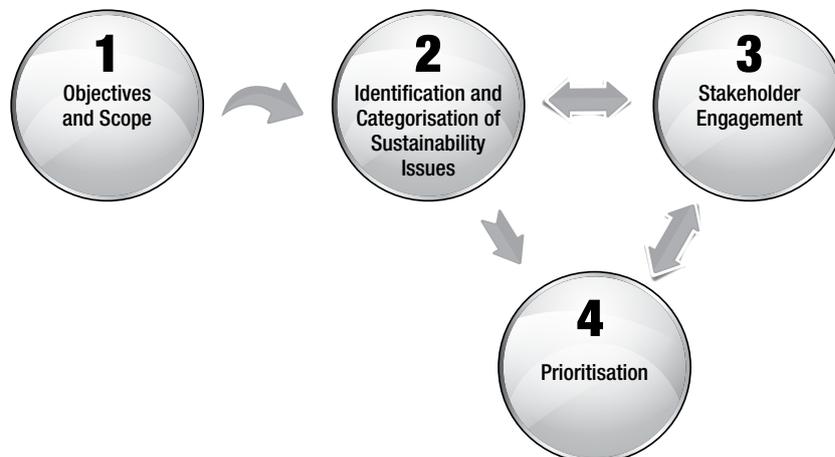
Kossan's sustainability governance structure is as follows:



Kossan will also be looking into establishing a longer-term governance structure that will enable the incorporation of responsibilities over sustainability in the day-to-day operations of the Group. This will also consider the existing risk management processes that the Group has adopted, to harness group synergies and efficiencies out of the current governance processes that are already in place.

## III. MATERIALITY PROCESS

To identify what is deemed material to the Group's business, Kossan has adopted a materiality assessment process, which is guided by Bursa Malaysia's Sustainability Reporting Guide and Toolkits. Our materiality assessment process is as follows:



# Sustainability Statement

## III. MATERIALITY PROCESS (CONT'D)

The process employs a prioritisation approach, taking into consideration important sustainability issues from both the perspectives of Kossan as well as its key stakeholders. Kossan has therefore undertaken to engage with stakeholders to determine the important sustainability matters and to solicit their views and inputs. At the same time, Kossan's management has also conducted an assessment on the importance of sustainability matters to the Group. This process is in line with material sustainability matters as defined in Bursa Malaysia's Listing Requirements, as those which:

- Reflect the business' significant economic, environmental and social impacts; or
- Substantively influence the assessments and decisions of stakeholders

### KEY SUSTAINABILITY ISSUES

Before engaging with stakeholders to conduct an assessment, Kossan has identified a list of sustainability matters relating to economic, environmental and social, that are deemed relevant to the Group's business. In identifying these issues, Kossan has considered, amongst others, the following:

- the nature of Kossan's business;
- international and local laws and regulations;
- Kossan's understanding of its stakeholders' needs;
- global and industrial trends;
- international sustainability reporting standards, e.g. GRI Standards; and
- peer reviews.

### STAKEHOLDER ENGAGEMENT

Kossan recognises the importance of its key stakeholders' views on sustainability matters, especially in the process of identifying what is deemed to be material to the Group. Therefore, Kossan has undertaken to engage with some of Kossan's key stakeholders to solicit their views. Kossan has also assessed its stakeholders, in terms of influence and dependence, to understand the dynamics among Kossan and its stakeholders.

The following table summarises some of Kossan's key stakeholders and how Kossan has engaged with them:

Key stakeholder group	Engagement methods
Employees	Workshop discussions
Suppliers/ business partners	Survey forms
Authorities/ government/ regulators	Survey forms
Customers	Survey forms
Local community	Interviews

## III. MATERIALITY PROCESS (CONT'D)

### MATERIALITY ASSESSMENT

Based on the relevant sustainability issues identified, Kossan's management conducted a risk assessment to understand the exposure and extent of the impact of these issues (should risks materialise, or the costs of not pursuing opportunities). Subsequently, Kossan's assessment and the feedback/ responses from stakeholders were consolidated and the most material sustainability matters are identified as follows:

Most Material Sustainability Matters	
1	Environmental compliance
2	Human rights and equal opportunities
3	Technological innovation, automation and Intellectual Property ("IP") development
4	Ethical business and transparency
5	Occupational health and safety management
6	Business expansion
7	Human capital development and labour practices
8	Development of local communities
9	Stakeholder engagement

The most material sustainability matters will be categorised and discussed in the following manner.

Key EES* Themes	Sustainability Issues	Page
Sustainable Business Growth	Technological innovation, automation and IP development	26
	Ethical business and transparency	26
	Business expansion	26
Environmental Stewardship	Environmental compliance	27
Social Responsibility	Human rights and equal opportunities	28
	Occupational health and safety management	28
	Human capital development and labour practices	29
	Local communities development	30
	Stakeholder engagement	31

\* Economic, Environmental and Social

## IV. MANAGING SUSTAINABILITY MATTERS

### SUSTAINABLE BUSINESS GROWTH

Sustainability is integral to the way we conduct our business activities. Our business strategy is to drive long-term corporate growth and profitability by mandating the inclusion of economic, environmental and social issues in our business model. As the world's second largest glove maker, Kossan has contributed towards consolidating Malaysia's position as the world's leading producer of medical gloves. The rubber glove sector has also been the largest export revenue generator for the Malaysian rubber product industry, accounting for 68% of the nation's total exports of rubber products in 2016.

# Sustainability Statement

## IV. MANAGING SUSTAINABILITY MATTERS (CONT'D)

### SUSTAINABLE BUSINESS GROWTH (CONT'D)

#### *Technological Innovation, Automation and IP Development*

From its early days, Kossan has been a firm believer in R&D as the way forward in a dynamic and competitive business. As the industry matures, Kossan, like other industry players, is moving into third generation automation and robotics to remain cost competitive and efficient. In line with its Sustainability Policy, Kossan continues to invest heavily in R&D and technology to meet global quality and productivity expectations. We are constantly looking to develop products of tomorrow, supplying global markets with improved gloves for surgical, medical examination, household and industrial use.

A significant milestone was achieved on 1 September 2016, when Kossan officially launched its patented Low Derma Technology. The Intellectual Property (“IP”) of our Low Derma Technology has been registered in the US, Japan and China, amongst the largest consumers of nitrile gloves in the world. It joins a growing list of patents already held by Kossan to protect its products in the marketplace, reinforce its brand presence and maintain its market position. The technology has resulted in a revolutionary, new generation nitrile glove which made its debut under Kossan’s house brand *7<sup>th</sup> Sense*.

Kossan is set to open its first R&D centre in fourth quarter 2017. The new research centre will open a new chapter and enhance Kossan’s research and development activities and potentials.

#### *Ethical Business and Transparency*

Ethics, integrity and transparency have increasingly become mainstream business issues in today’s business environment. In June 2014, the Company issued the Kossan Code of Ethics and Conduct as a guide to all employees and directors in conducting business ethically and sustainably. Additionally, a Whistle-Blowing Policy and the relevant mechanisms have been established, providing an avenue for employees and the public to lodge complaints of corrupt practices or wrong-doings in confidence. As part of a continuing effort to educate on corruption and code of ethics, talks and trainings have been organised for new recruits as well as for existing employees.

In managing our supply chain, we work collaboratively with our vendors and suppliers to conduct our businesses ethically in line with our corporate core values of Integrity, Respect and Professionalism.

Kossan believes in a level playing field in dealings with third-party contractors, ensuring that the principle of fair competition is upheld at all times. Even as we grow, we ensure that our growth is inclusive through various initiatives, such as our Vendor Development Programme. Annual satisfaction surveys are carried out to ascertain areas for mutual improvements.

#### *Business Expansion*

To keep pace with the projected demand and sustain our business growth, Kossan has plans to double its existing production capacity from the present 22 billion pieces to 44 billion pieces by the year 2023.

Currently, there are three expansion projects in the pipeline. The first will see the construction of a nitrile glove plant on a 10-acre piece of land at Meru, Klang with a capacity of 3.0 billion pieces per annum which is expected to be completed and commence production in July 2017. The construction works for the other two projects, with combined capacity of 4.5 billion pieces per annum to be built in 2 different plot of lands in Meru are expected to kick-start in stages from second quarter 2017 onward and is expected to be completed in the first and third quarter of 2018.

## IV. MANAGING SUSTAINABILITY MATTERS (CONT'D)

### SUSTAINABLE BUSINESS GROWTH (CONT'D)

#### *Business Expansion (Cont'd)*

The commissioning of the three new plants in 2017/2018 will boost Kossan's glove manufacturing capacity by 7.5 billion pieces per annum and bring the total capacity to 29.5 billion pieces of gloves per annum by end of 2018. These new plants will increase our revenue stream, underpinning Kossan's earnings from FY 2017 onwards.

Another bigger scale expansion project will be the development of the 56-acre site at Bestari Jaya, Selangor, to be implemented over four years in four phases with combined capacity of approximately 18 billion pieces of glove until the year 2023. Each phase will see the construction of one plant, with the first scheduled for construction by the end of 2018.

### ENVIRONMENTAL STEWARDSHIP

In a world increasingly concerned about environmental preservation, Kossan has long taken environmental stewardship in its stride as an integral part of its strategy towards sustainability. Kossan is committed to play its role as a responsible corporate citizen.

#### *Environmental Compliance*

From the time of our establishment since 1979, Kossan has always committed to comply with the legal and regulatory requirements of the Malaysian Department of Environment ("DOE") and other regulators and authorities. To this end, environmental protection measures and considerations have long been embedded in our manufacturing processes and day-to-day operations. Emphasizing the importance of environmental preservation, we have realigned our Mission Statement to reflect our aspiration to be "a good and responsible corporate citizen with effective policies to protect the earth and promote sustainability".

(a) Environment Management System ("EMS")

Over the years, Kossan has relentlessly adopted the environmental best practices in its manufacturing processes. We have adopted the EMS as the framework to help achieve our environmental goals through consistent control of our operations. Two of our manufacturing plants for technical rubber products have already earned certification to ISO 14001:2015, the core set of internationally recognised standards for designing and implementing an effective EMS. Our target is to achieve certification for all our plants over the next five years in order to further enhance our responsibility towards our environment.

(b) Treatment of Waste Gas

A particular concern is the discharge of hazardous chlorine gases as by-products of the manufacturing process. All our plants are installed with scrubber system that filters and removes toxic chlorine before discharging the emissions into the atmosphere.

(c) Management of Manufacturing Waste

Waste production is inevitable as part of our business's manufacturing process. However, solid wastes are segregated into their respective categories – metal, rubber, paper, plastic, wood and other recyclable materials – before they are sent to regulator-approved companies for proper disposal or recycling. As a business, we see waste as an additional cost to production. All heads of our manufacturing plants are therefore reminded from time to time to minimise waste and this has formed an important part of their key performance indicators.

# Sustainability Statement

## IV. MANAGING SUSTAINABILITY MATTERS (CONT'D)

### SOCIAL RESPONSIBILITY

Kossan has always believed that the way to build a great and enduring company is to strike a balance between profitability and fulfilling its social responsibilities. In today's inter-connected world, no business can operate as an entity unto itself. Companies are also measured in terms of their standing in the eyes of the community. Throughout the year 2016, Kossan continued to make progress to operate responsibly and with care to meet the changing expectations of society.

#### *Human Rights and Equal Opportunities*

As an equal opportunity employer, our workplace terms and conditions of employment are opposed to any form of discrimination, upholding the fundamental human rights protected by legislation.

(a) Minimum Wages and Non-discrimination

Since the implementation of the Minimum Wage Policy on 1 July 2016, Kossan has fully complied with the Government directive. The non-discrimination policy is embedded in our Kossan's Employee Code of Conducts and is accessible by all the employees.

(b) Child Labour Practice

The Children and Young Persons (Employment) Act 1966 defines a "child" as any person below 15 years old, while a "young person" as anyone under 18 years of age. All our employees meet the minimum age requirement stipulated under this Act.

(c) Promoting Workplace Diversity

In our efforts to create an inclusive environment, we embrace workplace diversity in terms of age, gender and ethnicity. A diverse workplace also goes a long way towards improving employee satisfaction and retention. Our policy on non-discrimination also provides support of our belief in workplace diversity.

#### *Occupational Health and Safety Management*

The safety and health of our employees at the workplace has always been a paramount consideration. Kossan seeks continuous improvement in occupational safety and health of our employees and those who may be affected by the work activities and is committed to comply with the relevant laws and regulations prescribed by the Department of Occupational Safety and Health ("DOSH").

To ensure compliance and a safe working environment, Kossan has a dedicated Safety Department reporting directly to the Executive Director. Kossan believes in a proactive approach in managing health and safety-related issues.

Our Safety Department continually reviews the system that is in place, and if necessary, new measures are introduced to improve safe and hygienic working conditions and/or minimise workplace accidents. Kossan has also established a Work Safety Committee that has been tasked to improve safety and hygiene conditions on the production floor and premises.

## IV. MANAGING SUSTAINABILITY MATTERS (CONT'D)

### SOCIAL RESPONSIBILITY (CONT'D)

#### *Human Capital Development and Labour Practices*

Employees are a vital component of a company's business. Their performance, commitment and loyalty to the job are critical not only in achieving the company's goals and objectives but most important for its long-term survival and sustainability. In this respect, Kossan is embarking to enhance its human resources department and capabilities to develop a strong human capital foundation by strengthening the leadership and adopting effective HR practices as well as attracting and retaining the right talent.

To accomplish this undertaking, Kossan envisages to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively in a rapidly changing and complex environment. Human capital development, therefore, becomes a part of an overall effort and strategy to achieve cost-effectiveness and performance.

Kossan is pleased to be recognised for doing the right things in the key area of human resource management. This was borne out when we were named by the Employer Branding Institute ("EBI") as one of the recipients of Malaysia's Best Employer Brand 2016 and Asia's Best Employer Brand 2016. The EBI brings together senior human resource practitioners to share and celebrate the best practices in Employer Branding in several Asian countries.

- Training and Development

We are constantly nurturing the skills and knowledge of our employees. As part of their induction programme, all new recruits go through the Kossan Employee Engagement Programme ("KEEP"). This is a platform used by the Group Chief Executive Officer ("CEO") to share the Company's Vision and Mission and impart his personal knowledge and words of wisdom. As part of the induction process, the programme includes a session on "Jom! The Kossan Way".

To ensure the effectiveness of the training effort, Training Needs Analyses ("TNA") are conducted annually to ensure the relevance of the programmes to suit individual requirements.

Reprising the success in 2015, one of the highlights of the training calendar 2016 was a revisit to Franklin Covey's signature programme, "The 7 Habits of Highly Effective People". The programme was conducted over several sessions for staffs at the supervisory, executive and managerial levels and the key points were cascaded down through sharing sessions.



# Sustainability Statement

## IV. MANAGING SUSTAINABILITY MATTERS (CONT'D)

### SOCIAL RESPONSIBILITY (CONT'D)

#### Local Communities Development

We believe fulfilling our dues to society should not solely involve the Company, but also from individuals as well. Kossan has always encouraged its management and staffs to be involved in welfare work and charity and we are pleased that the spirit of giving is very much alive within the Group.

(a) Yayasan Kossan

Yayasan Kossan was established in December 2015 as our platform to play a more meaningful role in our community outreach programmes to create an environment of inclusion and acceptance. Traditionally our key focus has been in the areas of education, welfare and charity, and cultural development, including the arts and performance. Currently Yayasan Kossan is adopting a more holistic approach in identifying long-term projects that are most relevant, needed and impactful.



Kossan supports the various charity organisations, schools and worthy causes via donation and sponsorships. During the year, besides providing financial aids and donations to individuals, schools and charitable organisations, Kossan has also sponsored the organising of the Asian Art Exhibition and the purchase of physiotherapy equipment for the Handicapped and Disabled Children Association of Klang.

(b) Project Smile

Under our signature “Project Smile”, many of our staffs have volunteered their time and efforts to participate in many community projects, such as beautifying a rural school or visiting an Orang Asli community in the heart of the rainforest. For many of the participants who delivered clothing, food, drinking water and toys to the rural community, volunteerism has been a truly rewarding experience.



(c) Internship and Scholarships Programmes

Kossan’s internship programme was established back in 2000 to enable students at diploma and post-graduate levels in both technical and non-technical disciplines to receive on-the-job training. Upon completion of the programme, exceptional and deserving candidates were offered job opportunities within the Group. For the year 2016, a total of 34 students have benefited from our internship programme.

Over the past two years, Kossan has also offered 30 scholarships and education subsidies to eligible students in need of financial assistance to enable them to continue with their studies. Industry visitations to our manufacturing plants were also organized for students from tertiary institutions as a platform for them to learn and better understand the manufacturing process of gloves.

## IV. MANAGING SUSTAINABILITY MATTERS (CONT'D)

### *Stakeholder Engagement*

Engaging with our stakeholders is not only a basis for sustainability but also good governance. Stakeholder engagement based on trust, integrity, two-way commitment and communication are critical for organisational success.

Engagement with Invest Selangor, Malaysian Investment Development Authority, Fire and Police departments, local authorities and agencies, and manufacturers association was done through the Industrial Park Management Committee (“IPMC”) meetings chaired by the Yang Di Pertua, Majlis Perbandaran Klang to better understand and resolve any issues facing the members who operate within the same municipality including safety and security, cleanliness; and other operational related matters.

In addition, shareholders and other investors also get the opportunity to meet the Managing Director at the company’s annual general meetings and also through dialogues at investment conferences held locally and overseas. Interviews and briefings are also being organised regularly to keep the media and investor analysts abreast of developments at Kossan.

In this digital age, our corporate website, [www.kossan.com.my](http://www.kossan.com.my) provides reliable information on our business activities as well as financial information, including our annual report. Updated regularly, this is part of our commitment to provide current and accurate information to all our stakeholders as well as the public at large. The latest announcements on developments affecting Kossan can also be accessed through Bursa Malaysia’s website.

### **CONCLUSION**

In our journey towards integrating sustainability in our business, Kossan will establish formal procedures in internalising sustainability considerations in our organisation. We will strive to further seek enhancement opportunities in pursuing business, environmental and social sustainability.