

SUSTAINABILITY STATEMENT

This Sustainability Statement is prepared in compliance with paragraph 29, Part A of Appendix 9C of the Main Market Listing Requirements and guided by the Sustainability Reporting Guide and Toolkits issued by Bursa Malaysia.

In our maiden 2016 sustainability statement, we illustrated our strategic approach to address sustainability challenges and opportunities and its effects in contributing towards the betterment of the business, environment and society. We wish to reiterate that sustainability has always been and will be part and parcel of Kossan’s culture as we strive to achieve continual financial performance and **Business Stability with Long Term Sustainable Growth**.

I. APPROACH ON SUSTAINABILITY

The Statement aims to provide an overview of Kossan’s approach to sustainability from governance to Kossan’s sustainability endeavour and commitment to embed sustainability culture and practices into its business operations.

Unless otherwise stated, the scope of this Statement covers the business operations of the Group’s Gloves and Technical Rubber Products (“TRP”) business divisions domiciled in Malaysia which collectively contributed over 96 percent of the Group’s sales revenue for the financial year ending 31 December 2017.

From the Group’s stakeholder engagement, nine (9) main material sustainability matters were identified and grouped into three (3) Key EES Themes (Economic, Environmental and Social) of sustainability practices in which the Group is positioned to add value i.e.:

- Sustainable Business Growth;
- Environmental Stewardship;
- Social Responsibility;

To further elaborate Kossan’s sustainability endeavour and commitment, this Statement is structured into four sections:

- I. Approach on Sustainability
- II. Sustainability Governance
- III. Materiality Process
- IV. Managing Sustainability Matters

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 Kossan have taken to identify and prioritise the material matters. The fourth section reports on the Group’s practices and performance in managing the material sustainability matters.

In preparation of this Statement, we have engaged and considered the responses from both internal and external stakeholders and performed a thorough internal review and assessment of the key sustainability matters, its risks and opportunities which represent significant areas of our Group’s business and operations.

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II. SUSTAINABILITY GOVERNANCE

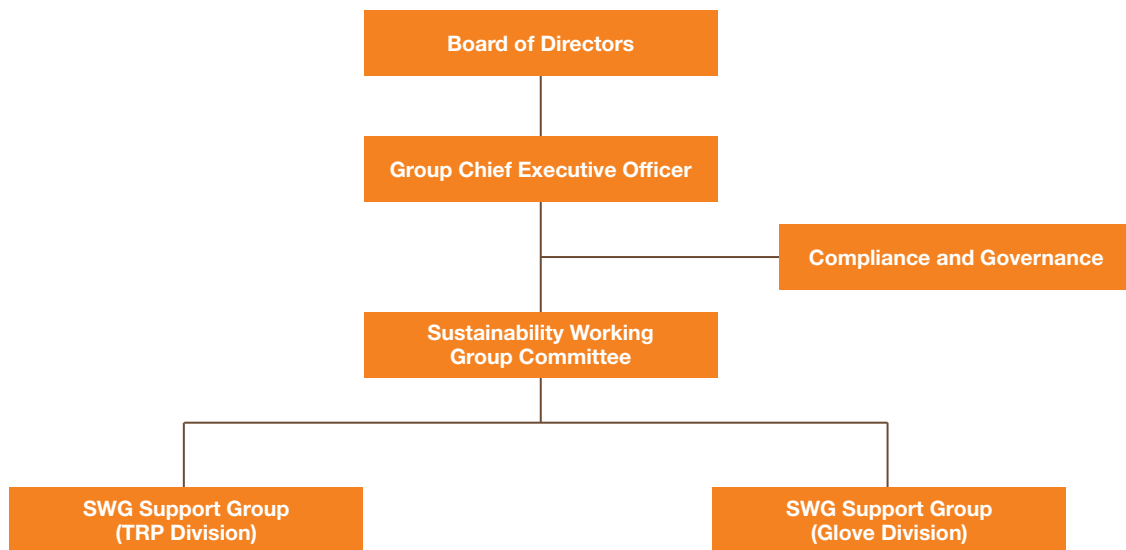
The responsibility to promote and embed sustainability in Kossan’s business strategy lies with the Board of Directors. As part of reinforcing the governance ecosystem, the Board had in 2016, established a Sustainability Working Group (“SWG”) Committee at the management level to oversee the incorporation of sustainability in the Group’s businesses, as well as to facilitate the preparation of the Sustainability Statement for inclusion in the Annual Report.

The SWG is represented by members from the Board and senior management from the Group’s functional units as well as from the strategic business units of the Gloves and TRP divisions.

The main roles and responsibilities 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);
- Management of material sustainability matters identified; and
- Preparation of sustainability disclosures.

Kossan’s sustainability governance structure is as follows:



The SWG will continue to seek to enhance and harness the Group’s synergies and efficiencies of the current governance process taking into consideration of the existing risk management processes adopted by the Group.

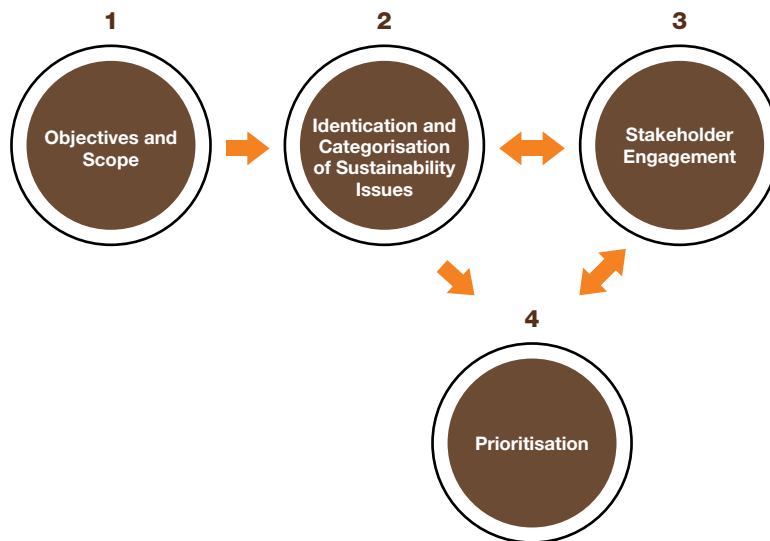
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III. MATERIALITY PROCESS

The key to meeting our sustainability objectives is the focus on sustainability matters that are the most material to the Group.

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:



This process entails the following: -

- a) Key Sustainability Issues
- b) Stakeholder Prioritisation
- c) Stakeholder Engagement
- d) Materiality Assessment

The materiality assessment 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. Hence, the SWG has conducted assessment on the importance of sustainability matters to the Group that:

- 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 had identified a list of sustainability matters relating to economic, environmental and social factors that are deemed relevant to the Group's business. This process of streamlining the list of factors allow us to focus on the most material issues. In identifying the sustainability 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.

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Stakeholder Prioritisation

To better understand the dynamics between Kossan and its stakeholder's, these stakeholders are categorised and assessed based on their influence and dependence on Kossan. Amongst others, these are assessed based on the financial, operational and reputational impacts. Stakeholder's which have significant influence over the impact on our business, as well as significant dependence on our business, are then engaged through various methods. The key stakeholder groups are outlined below: -

Stakeholder Groups	Stakeholders' Influence	Stakeholders' Dependence	Overall stakeholder priority rating	Ranking	Weightage assigned
Employees	2.8	2.7	5.5	3	37.50%
Suppliers/Business Partners	2.4	3.0	5.4	2	25.00%
Society/Local Communities	1.8	2.3	4.1	1	12.50%
Authorities/ Government/ Regulators	2.8	1.3	4.1	1	12.50%
Customers	2.4	1.7	4.1	1	12.50%

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. By gathering stakeholders feedback, we are able to better understand their views and gain insights into the economic, environmental and social issues that matter most to them. Therefore, Kossan has undertaken to engage with some of Kossan's key stakeholders to solicit their views.

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

Key Stakeholder Groups	Engagement Method
Employees	Workshop discussions and survey forms
Suppliers	Survey forms
Authorities/ government/ regulators	Survey forms
Customers	Survey forms
Local Community	Survey forms

Materiality Assessment

Based on the relevant sustainability issues that were identified, Kossan's management conducted a risk assessment to understand the exposure and extent of the impact of these issues. Subsequently, Kossan's assessment and feedback/ responses from stakeholders were consolidated and the most material sustainability matters were identified as follows: -

- 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) Local communities development
- 9) Stakeholder engagement

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These most material sustainability matters are categorised into three key themes which form the foundation on our approach to sustainability and discussed in the following manner: -

Key EES* Themes	Sustainability Issues	Page
Sustainable Business Growth	Technological innovation, automation and IP development	29
	Ethical business and transparency	30
	Business expansion	31
Environmental Stewardship	Environmental compliance	31
Social Responsibility	Human rights and equal opportunities	32
	Occupational health and safety management	33
	Human capital development and labour practices	33
	Local communities development	34
	Stakeholder engagement	36

* Economic, Environmental and Social

IV. MANAGING SUSTAINABILITY MATTERS

i) Sustainable Business Growth

Sustainability is integral to the growth and success of our business. Kossan's strategy is to drive long-term sustainable growth through the inclusion of economic, environmental and social factors into our business model. As one of the world's largest latex glove manufacturers, Kossan has contributed towards nation-building and consolidated Malaysia's position as the world's leading producer of medical gloves, with a market share that is projected to increase further to 65% of the global market by 2020 according to the Ministry of Plantation Industries and Commodities ("MPIC").

Technological Innovation, Automation and IP Development

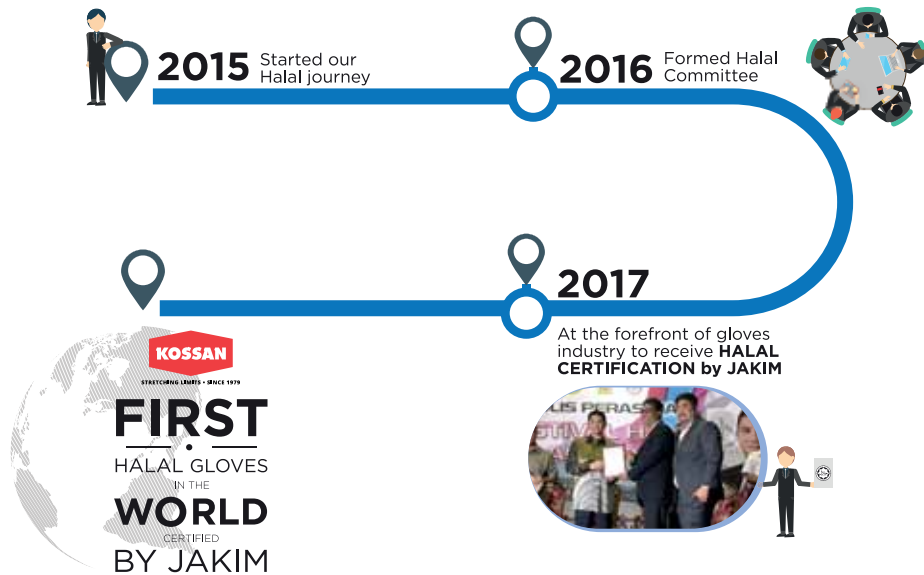
Technology is both a key enabler as well as a potential source of significant disruption to our business model in the long run. As the industry matures and moves into technological adoption in the manufacturing process, Kossan has recognised the importance of Industry 4.0, hence automation and robotics in its plants are imperative to remain cost competitive and efficient. For example, our plants employ a SCADA system on the production floor to track and gather real time data of those critical parameters in the Human Machine Interaction ("HMI"). With this interaction, we can act precisely to preserve productivity and quality conformity and optimise energy consumption throughout the glove manufacturing process. With robotic implementation, the Group hopes to further automate the production process to both improve efficiency and product quality, with the aim to complete the automation programme of our plants by 2020, resulting in the reduction of headcount.

Innovation and R&D has been the cornerstone of Kossan's growth and evolution over the years. As testament to the Group's focus on developing better products with innovative features, in September 2016, the Group launched its patented Low Derma Technology gloves which were the first in the world to be granted the U.S. Food and Drug Administration's low-dermatitis potential claim. The Intellectual Property ("IP") of the Low Derma gloves has been registered in numerous countries including the US, Japan and China, which are amongst the largest consumers of nitrile gloves in the world. Low Derma gloves, which currently contributes between 10-15% of total sales revenue for FY2017, joins a growing list of patents already held by Kossan to protect its products in the marketplace, reinforce brand presence and maintain market position.

In November 2017, the Group followed this milestone with the launching of the world's first Halal certified gloves certified by JAKIM under the brand name, Confidenz™, again demonstrating its innovative and market-leading position. This achievement places KOSSAN at the forefront of a solution to meet the stringent demands of the Halal industry, not just for the food sector, but also for the entire Halal value chain.

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OUR JOURNEY TO DEVELOPING THE CONFIDENZ HALAL-CERTIFIED GLOVES



These Halal-certified glove products allows us to expand and differentiate our product lines, allowing us to protect our marketplace and sustain the Group’s growth. In-line with the continued developments in e-commerce and to enhance our presence in the digital marketplace, the CONFIDENZ line of glove products are also available online in Malaysia at www.e-shirudo.com.



Available in variety of products ranges catering to all types of industries



Kossan will continue to invest heavily in R&D and technology to meet global quality and productivity standards, constantly looking to develop products of tomorrow and supplying global markets with improved gloves for medical examination, surgical, industrial and household use.

Ethical Business and Transparency

An environment that fosters a culture of high ethics, integrity and transparency is upheld through Kossan Code of Ethics and Conduct (“KCEC”), Anti-Corruption and Whistle-Blowing Policy.

The KCEC, amongst others, governs the standards of conduct and ethical behaviour expected from all employees and directors in the discharge of their duties and responsibilities.

The Group has always adopted a strict zero tolerance policy towards corrupt practices since its founding. In this respect, Kossan formalised and adopted the Anti-Corruption Policy in 2017, which prohibits all employees directly and indirectly from either soliciting or offering from any party any bribe or reward in relation to company business.

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To this end, the Whistle-Blowing Policy along with the relevant safeguard mechanisms that have been established, provides an avenue for employees and the public to lodge complaints of corrupt practices or wrong-doings in confidence, and that employees and other persons making such reports will be treated fairly and protected from reprisals. For 2017 and 2016, there were no reported cases.

The Code of Ethics and Conduct, Anti-Corruption and Whistle-Blowing Policy can be found on our website at <http://www.kossan.com.my/about-us/corp-governance.html>

The supply chain, which consists of both customers and suppliers are an equally important avenue for sustainability initiatives where 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.

The Group provides a fair and transparent environment to our suppliers and business partners where the vendor's services are benchmarked against that of peers. Kossan believes in equal opportunities and a level playing field in dealings with third-party contractors, ensuring that the principle of fair competition is upheld at all times. In this respect, we have established a Vendor Development Programme where suppliers are carefully selected, ensuring that our partners grow and develop in tandem with the Group.

Business Expansion

Kossan's focus has always been on long-term sustainable growth. Under the Group's 5-year expansion programme, which will focus on organic growth, production capacity is expected to increase from the current 25 billion pieces per annum to 47.5 billion pieces by the year 2023.

In 2017, the Group completed the construction of Plant 16, which has an installed capacity of 3 billion pieces of gloves per annum. This latest state-of-the-art plant located on Jalan Meru incorporates many of the latest technologies, including high-speed dipping technology with a high-degree of automation to reduce the dependence on manpower.

Construction works for Plant 17 and 18 also along on Jalan Meru are expected to be completed by 2018. These 2 new plants would be capable of producing up to 4.5 billion pieces (1.5 and 3.0 billion pieces respectively) of nitrile gloves per annum. With the completion of these two plants, Kossan's glove manufacturing capacity will increase to 29.5 billion pieces, underpinning our earnings and growth momentum in the near future.

Moving forward, the Group also has plans for the development of the earmarked 56-acre industrial land site in Bestari Jaya. This project will entail the development of an additional four plants, which will be implemented in four phases with a combined capacity of 18 billion pieces of gloves per annum. Each phase will see the construction of one plant per year until the year 2023, with each plant having a capacity of 4.5 billion pieces per annum.

In August 2017, Kossan also announced the acquisition of a piece of industrial land measuring 98 acres in the district of Kuala Langat for the future development of the group's glove manufacturing activities, in line with the Group's long-term growth strategy. The land is strategically located in the vicinity of a major industrial complex and possesses excellent accessibility and connectivity via major highways.

ii) Environmental Stewardship

As a responsible corporate citizen, Kossan recognizes that its actions have a significant impact on the environment and supports pollution prevention and environmental protection in all its business operations. 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.

Environmental Compliance

Kossan has always committed to comply with the legal and regulatory requirements of the Malaysian Department of Environment ("DOE") and other regulators and authorities. Our plants submit the GSR ("Guided Self Regulations") and employ the monthly Online Environmental Information System ("OER"). Environmental protection measures and considerations have long been embedded in our manufacturing processes and day-to-day operations.

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- Environment Management System (“EMS”)

Under the technical rubber products division, two of our plants have also been certified to the latest revision of the ISO 14001:2015 certification in January 2017, the core set of internationally recognised standards that provides practical tools for companies and organizations of all kinds looking to manage their environmental responsibilities.

- Treatment of Waste Gas

A particular concern is the discharge of hazardous chlorine gas waste as part 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. In addition, the group’s employees have been sent to courses and obtained Competent Person status in areas such as Certified Environmental Professional in Scrubber Operation (“CePSO”) to ensure best practices and regulatory requirements are constantly met.

- Management of Waste

Waste production is an inevitable part of our manufacturing process. With regards to waste disposals, the Group’s plants employ the Electronic Scheduled Waste Information System (“E-SWIS”), where every scheduled waste disposal is handled by a licensed waste collector. Solid wastes are segregated into their respective categories before they are sent to regulator-approved companies for proper disposal or recycling. Additionally, employees are sent for certifications becoming Competent Persons in areas such as Certified Environmental Professional in Scheduled Waste Management (“CePSWaM”), Certified Environmental Professional in the Operation of Industrial Effluent Treatment Systems etc.

iii) Social Responsibility

At Kossan, we believe that being socially responsible is the hallmark of an enduring company. We understand that profitability is not the only measure of performance and we strive to strike a balance between performance and fulfilling our social responsibilities. In today’s inter-connected world, inevitably, companies find themselves more and more in the public eye, and have become increasingly measured in terms of their standing in the communities in which they operate.

Human Rights and Equal Opportunities

Our workplace terms and conditions of employment are opposed to any form of discrimination, upholding the fundamental human rights protected by legislation. This ensures that we are able to adapt to the changing needs and demands of customers, stakeholders and markets.

(a) Minimum Wages and Non-discrimination

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

(b) Child Labour

The Children and Young Persons (Employment) (Amendment) Act 2010 defines a “child” as any person who has not completed his 15th year of age; and “Young Person” as any person who, not being a child, has not completed his 18th year of age. Kossan prohibits the employment of child labour and forced labour under any circumstances and is committed to providing Equal Employment Opportunity and fair term of employment mutually agreed by the company and employee. All our employees meet the minimum age requirement as stipulated under this Act.

(c) Promoting Workplace Diversity

We value equality, diversity and inclusion and hire people with experience from different industry backgrounds, and with different cultures and beliefs. In our efforts to create a culture of inclusiveness, we believe that a diverse workplace also goes a long way towards improving employee satisfaction and retention.

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The table below outlines the diversity of our workforce: -

	FEMALE		MALE		GRAND TOTAL	
	TOTAL	%	TOTAL	%	TOTAL	%
From age 30 and below	276	15.7	407	23.1	683	38.8
From age 31 to 40	267	15.2	270	15.3	537	30.5
From age 41 to 50	118	6.7	242	13.8	360	20.5
From age 51 to 60	40	2.3	93	5.3	133	7.6
Above age 60	14	0.8	32	1.8	46	2.6
TOTAL	715	40.6	1044	59.4	1759	100.0

(Domestic workers by age & gender for 2017)

Occupational Health and Safety Management

Health and safety has always been a primary focus in Kossan’s operations. The Group takes a proactive approach towards mitigating occupational hazards and risks, ensuring employees operate in a secure environment at all times. We are committed to comply with the relevant laws and regulations prescribed by the Department of Occupational Safety and Health (“DOSH”) across all our manufacturing plants and seek to continuously improve the occupational safety and health of our employees.

To ensure compliance and a safe working environment, Kossan has a dedicated Safety Department reporting directly to the executive Director. 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.

In 2016 and 2017, Kossan recorded zero fatality cases across its entire operations.

Human Capital Development and Labour Practices

The heart of Kossan is its people. Our people’s performance, commitment and loyalty to the job are critical not only in achieving the company’s goals and objectives, but also for its long-term survival and sustainability. The Group’s focus is on cultivating an engaged and dedicated workforce by providing them with the right incentives, working environment and career development prospects. By building a strong human capital foundation, the Group believes that not only will it be able to attract the right talent, but more importantly to retain and develop its people.

Kossan prides itself with being the employer of choice, retaining and developing exceptional talent within the organisation. As recognition of our human capital achievements and development, we were awarded with Asia’s Best Employer Brand Award 2017 by the Employer Branding Institute for the 2nd year in a row.

- Training and Development

Kossan’s training and development initiatives are designed to build employees’ knowledge, skillsets and competencies, allowing them to excel in their work and meet challenges head-on. In addition to upskilling our employees in their respective technical, functional and soft skills, we strengthen our leadership pipeline by developing key talents and successors for key management positions.



For 2017, total training hours increased to 16,000 hours from 7,765.5 hours in 2016, an increase of 106%. Average training hours per employee was 9.1 hours in 2017 compared with 5 hours in 2016. Total training expenditure increased by almost 25% year-on-year as a result.

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To ensure the effectiveness of the training effort, Training Needs Analyses (“TNA”) between employee and their superiors are conducted annually to identify training requirements.

All new recruits go through the Kossan Employee Engagement Programme (“KEEP”) as part of their induction programme, which also includes a session on “Jom! The Kossan Way”. These programmes help employees fit-in quickly and feel welcomed.

Local Communities Development

a) Yayasan Kossan

In December 2015, Yayasan Kossan (“YK”) was established to create a foundation for those in need.

YK’s objective is to fund and support activities for education and social welfare covering medical and health, environment, arts and culture in Malaysia. The priority is to provide direct aid to the needy or the underprivileged within our community.

In 2017, 194 individuals benefitted directly through these social initiatives, with total expenditure for YK’s activities amounting to over RM725,000.

Some of the highlights in 2017 include Kossan’s School Sponsorship Program and Back To School Subsidy Program held in August and September 2017 respectively, to benefit underprivileged school-going children of schools around Klang, Selangor. We also supported Hand-in-Hand Charity Program for Dialysis cases as well as Tabung Kebajikan Ibu Ibu Tunggal.



Children receiving school-items during Yayasan Kossan's School Sponsorship Program 2017.



Go Green Program at SJK(C) Pui Ying.



Health check and blood donation during Yayasan Kossan Health and Safety Carnival 2017.

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Local Communities Development

b) Project Smile

Project Smile is an initiative under Kossan International Sdn Bhd (KISB) to develop and maintain good relationships between our internal and external community, particularly with the younger generation as well as developing future leaders. Like many of our social activities, participation from Kossan's employees continue to be overwhelmingly positive. Some of the highlights in 2017 include:

HOPE: Embrace Possibilities where students in SJK (C) Pui Ying benefitted from motivational talks and positive thinking on top of donations;

CARE: Enhance Lives where children at SEMOA enjoyed arts and craft activities, the planting of trees and vegetables as well as donations; and

GIVE: Joy of Sharing at Good Samaritan Home where children enjoyed the festivities and received gifts such as school bags on top of financial donations for basic necessities.

Project Smile



Planting of trees at SEMOA Orang Asli Education Centre in Raub.



Joyous Celebration at Good Samaritan Home.

c) Internship and Scholarship Programmes

Kossan's internship programme was established back in 2000 to enable students from diploma to 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. These interns were placed in the Group's different business units across various verticals, such as Production, IT, QA, Engineering and etc. For the year 2017, a total of 32 students benefitted from our internship programme.

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.

Kossan also offers scholarships and education subsidies to eligible students in need of financial assistance to enable them to continue with their studies. Under Yayasan Kossan's scholarship programme, education aid of between RM15,000 to RM25,000 per year are given to deserving individuals to pursue their education in public or private universities.

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37th Annual General Meeting at Setia City Convention Centre.

Stakeholder Engagement

In 2017, Kossan had established the Investor Relations Framework (“IR Framework”), which sets out the methodology and internal procedures in which the investor relations function and its related activities will be governed and executed. Guided by the framework, the Group actively engages stakeholders in a structured manner through regular updates to the investment community on its business and operations, adhering to principles of transparency and accountability. In this regard, the Group MD/CEO serves as the primary spokesperson for the dissemination of business and financial related information, assisted by an Investor Relations officer.

In addition, shareholders and other investors also get the opportunity to meet the Group MD/CEO 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.

Continuous engagement is the basis for good governance. Stakeholder engagements based on trust, integrity, two-way commitment and communication are critical for organisational success.

Over the course of the year 2017, Kossan engaged with various parties, including industry associations such as Malaysian Rubber Export Promotion Council (MREPC), Malaysian Association of Rubber Glove Manufacturers (MARGMA), Fire and Police departments, local authorities and agencies.

Our corporate website www.kossan.com.my provides up-to-date information on our business activities as well as financial information, including our annual report. This serves as part of our commitment to provide current and accurate information to all our stakeholders as well as the public at large.