

SUSTAINABILITY STATEMENT

Statement Overview

The ever-increasing relevance of sustainability has affected the way how the corporate strategy is carved and the way businesses are operated. Kwantas Corporation Berhad and its subsidiaries (“Kwantas” or “the Group”) make continuous efforts to adopt sustainable practices and to integrate sustainability information into its reporting cycle. This Statement covered the Group’s business operations for the period from 01 July 2019 to 30 June 2020 and was prepared with reference to Sustainability Reporting Guide (2nd edition) recommended by Bursa Malaysia Securities Berhad.

Commitment to Sustainability

The Group’s approach towards building a sustainable world is by putting in place sustainable measures to address global concerns on the environment, contributing to the economy and creating positive and enduring social impact in the business environment that the Group is involved in.

The Group’s sustainability governance structure remains consistent with the previous reporting year, in which it is set by the tone from the top. The Board of Directors is accountable for the overall overseeing sustainability-related strategies whilst the Group Chief Executive Officer provides stewardship towards incorporating sustainability into the Group’s strategies, directions, targets and goals. The head of each operating units will facilitate the implementation and execution of sustainability matters in accordance with the Group’s policies and practices.

Stakeholders’ Engagement

Stakeholders are defined as any individual, community and entity. The Group identifies and understands the impact each stakeholder may affect or be affected by the Group’s business. The Group maintains an open and transparent communications and engagement with stakeholders to understand their specific needs and expectations in relation to the Group’s sustainability performance. The following table summarises the engagement process with the Group’s key stakeholders:

Key Stakeholder	Engagement Channels	Key Topics
Government Authorities and Regulators	<ul style="list-style-type: none">• Meetings and dialogues• Site visits and audits• Briefings and trainings• Applications/submissions/compliance/certifications	<ul style="list-style-type: none">• Compliance with legal requirements and regulations• Industry guidelines and best practices
Customers	<ul style="list-style-type: none">• Meetings• Customers’ visits• Contract negotiation	<ul style="list-style-type: none">• Satisfaction in product and service quality• Timely delivery/shipment• Sustainability updates - certification, best management practices
Shareholders/Investors/Fund Managers	<ul style="list-style-type: none">• Annual General Meetings• Company website• Annual reports• Announcements via Bursalink	<ul style="list-style-type: none">• Business strategies and directions• Financial and operational performances

SUSTAINABILITY STATEMENT (Cont'd)

Stakeholders' Engagement (Cont'd)

Key Stakeholder	Engagement Channels	Key Topics
Local Communities/ Non-Governmental Organisations/ Associations	<ul style="list-style-type: none"> Volunteering opportunities and charitable events Donations/sponsorships Meetings and dialogues 	<ul style="list-style-type: none"> Responsible corporate citizenships through community services Strategic partnerships
Employees	<ul style="list-style-type: none"> Internal portal New staff orientation Annual appraisal Training and development programme Informal gathering to enhance bonding Welfare and remuneration package 	<ul style="list-style-type: none"> Personal advancement and career development Employees' welfare and benefits Health and safety at work Employees' loyalty and team work Identify potential talent for future expansion
Contractors/Suppliers	<ul style="list-style-type: none"> Meetings and briefings Tender and bidding process Site visits Contract negotiations 	<ul style="list-style-type: none"> Payment terms and timeliness Long-term business relationship Work ethics

ECONOMIC SUSTAINABILITY

For the financial year ended 30 June 2020, the Group recorded RM882.50 million in turnover which represents an increase of 14.06% as compared to previous financial year. Revenue from oil palm plantations and palm products increased from RM593.62 million in FY2019 to RM615.92 million in FY2020, representing an increase of 3.76%. As highlighted in the Management Discussion and Analysis:

1. During the financial year, 57% of the Group's revenue were contributed by the sale of crude palm oil ("CPO"). The realised average selling price of CPO had increased from RM1,979 per MT in FY2019 to RM2,265 per MT in FY2020. Total volume traded for CPO stood at 222,095 MT in FY2020 as compared to 220,334 MT in FY2019.
2. Fresh fruit bunches ("FFB") production of the Group had decreased by 7.49% to 267,041 MT for the year ended 30 June 2020 as against 288,671 MT in FY2019. FFB yield per mature hectare ("YPMH") achieved by the Group was 16.9 MT/YPMH as against 17.7 MT/YPMH in the preceding year.
3. Oil extraction rates ("OER") achieved by the Group was 21.22%, representing an increase of 0.57% from the preceding year. Kernel extraction rates ("KER") was 4.78% in FY2020, a slight decrease of 0.28% from the preceding year.

Oleochemical products accounted for approximately 30.21% of the Group's total revenue in FY2020. Revenue reported from this segment had increased significantly by 48.07% to RM266.59 million (FY2019: RM180.05 million), mainly due to increase in production and trading of oleochemical products. The volume traded for oleochemical products had since increased to 96,286 MT (FY2019: 66,682 MT), whilst the average selling price of the oleochemical products had increased from RM2,687 per MT in FY2019 to RM2,717 per MT in FY2020.



SUSTAINABILITY STATEMENT (Cont'd)

ECONOMIC SUSTAINABILITY (Cont'd)

During the year under review, the Group spent a total of RM25.80 million in its capital expenditure in which RM13.20 million was incurred in development of oil palm plantations, replanting activities and acquisition of new tractors and vehicles for plantation activities and RM6.08 million was incurred in upgrading of oleochemical plant and bulking tanks in China.

Traceability and Supply Chain Management

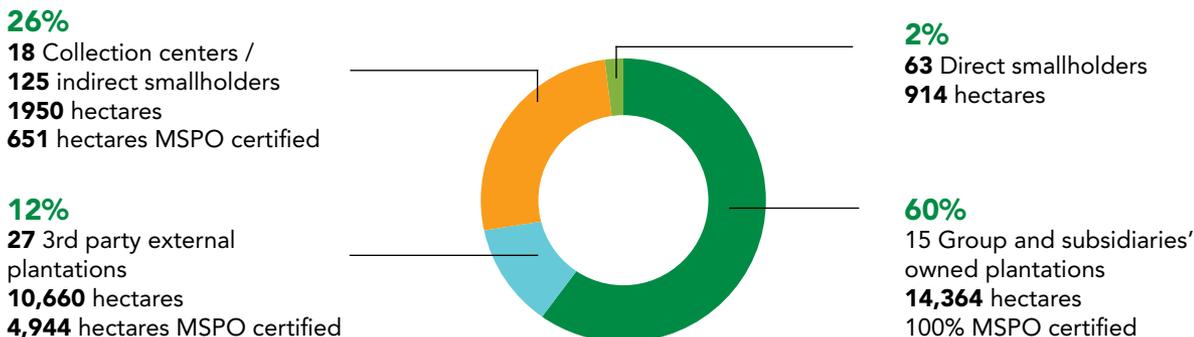
Palm Oil Supply Chain Traceability Requirement is mandated under MSPO. Traceability refers to the possibility to trace production, use or location of an element of the supply chain. Such a requirement applies to every stage of supply chain such as smallholders, FFB dealers, palm oil mills, refineries, storage tank and transport. This is also in line with the growing expectation and demand on transparency and accountability by the customers. Kwantas is still working closely with its FFB suppliers and mills to track the origins and sources of palm products. Based on the record in the calendar year of 2019, Kwantas had achieved the following overall crop traceability:

Traceability and Supply Chain Management

Full traceability to the oil mill 18 3rd party supplier oil mills, 3 Group's owned oil mills	Full traceability to the plantations 60% *TTP for Group's oil mills achieved (27,888 hectares total area)
Supplier support: 2 joint audits with 3rd party suppliers, sharing data within all suppliers	Target 100% *TTP 3rd party oil mills by 2021
12 visits to 8 suppliers since 2019	45% of Kwantas palm supply chains fully traceable in 2019

*TTP Traceability to the plantation

Group's oil mill supply base (27,888 hectares) as in calendar year 2019



SUSTAINABILITY STATEMENT (Cont'd)

ECONOMIC SUSTAINABILITY (Cont'd)

Key commitments	Progress	Future targets
<p>Kwantas ensures that all quantities of palm oil and palm oil fractions will be 100% TTP traceable by the end of 2021</p>	<ul style="list-style-type: none"> • 45% of palm supply chains were fully traceable in 2019 • to understand the 3rd party suppliers' practices and to promote the importance of adopting traceability requirements • Training and support for 3rd party oil mills to achieve TTP by 2021 	<ul style="list-style-type: none"> • Maintain full TTP • Continue sharing responsible palm oil practices within the Group's supply chain • Supply Chain Dashboard • 100% TTP for 3rd party traders by 2021
<p>The Group will implement a Supplier Grievance Register, a system that will identify non-compliant suppliers and will respond to any issues using grievance process in a timely and transparent manner</p>	<ul style="list-style-type: none"> • In 2019, 4 grievances were raised and all have been resolved • Assessed 3 suppliers for environmental impacts and 2 suppliers for social impacts 	<ul style="list-style-type: none"> • Enhance procedures to assess risk levels for supply from all the Group's own and 3rd party oil mills
<p>Engaging and supporting the Group's suppliers and transformation of the palm oil supply chain for compliance</p>	<ul style="list-style-type: none"> • Technical assistance and one-to-one meeting • Training on new policy requirements to all direct suppliers • To develop Responsible Sourcing Guidelines for the purchase of external FFB • 21 visits to supplier oil mills since 2018 till the financial year under review • 12 suppliers visited Kwantas in 2019 • Increasing partnerships with customers to support improvement in smallholders' attentiveness and sustainability 	<ul style="list-style-type: none"> • Conduct site visits to complete sustainability overview reports of Kwantas' remaining refineries/ bulking installations • Extend engagement and sustainability support efforts to suppliers at plantation level including collection centers and indirect smallholders

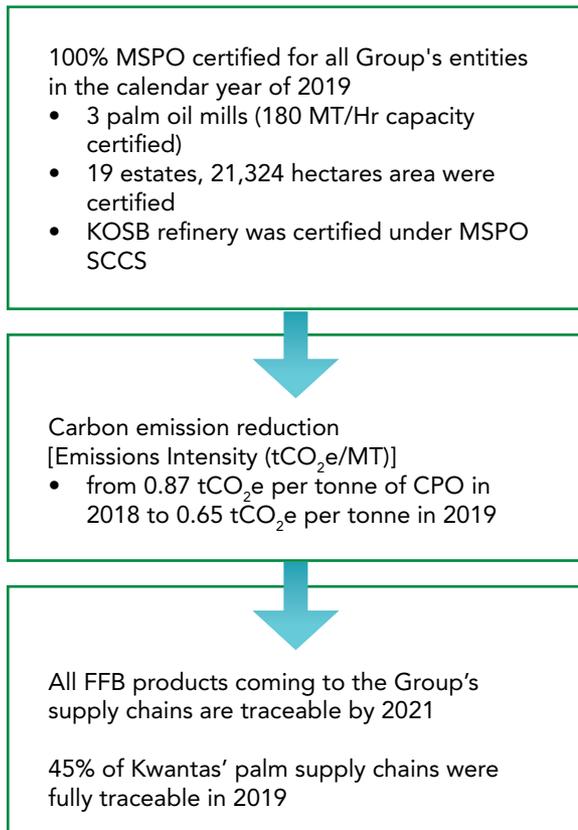


SUSTAINABILITY STATEMENT (Cont'd)

ENVIRONMENTAL SUSTAINABILITY

The Group proactively aligns to No Deforestation, No Peat and No Exploitation ("NDPE") Policy. The NDPE Policy commits Kwantas to stringently manage and monitor all aspects of the Group's operations in order to minimise adverse impact on social and the natural environment.

HIGHLIGHTS OF KEY SUSTAINABILITY PERFORMANCE



Sustainability Certification

The Group strives to maintain and re-certify all RSPO & MSPO certified plantations, palm oil mills and refinery. Palm oil mills within the Group will also be audited to obtain MSPO SCCS certification in 2020.

Despite the challenges and obstacles faced in achieving the certifications of RSPO P&C and SCCS, the Group is progressively moving towards the compliance as a target to pursue its corporate sustainability journey.

No Burning on New Development and Replanting

The Group has a policy towards zero use of burning for land preparation in new planting, replanting or other development. Land preparation for planting is performed using mechanical clearing instead of burning.

No Deforestation

Kwantas is committed to a deforestation-free palm oil industry and is working at all levels of production to ensure that palm oil is responsibly produced.

High Conservation Value ("HCV") and Biodiversity

The initial field work on HCV scoping assessment was started in April 2016 by a team of ecologists and biologists, followed with documentation review. The assessors had also conducted an inventory of flora and fauna and their conservation status during the field visit. For the calendar year ended 31 December 2019, the Group had completed its HCV assessments for all existing plantations. Methodological HCV assessment had covered approximately 40,823 hectares and 21,323 hectares respectively.



SUSTAINABILITY STATEMENT (Cont'd)

ENVIRONMENTAL SUSTAINABILITY (Cont'd)

The total sizes that were considered to be of HCV and corporate conservation area ("CCA") within the Group's plantation landholdings are as follows:

AREA	SIZE (Ha)
Sabah	328
Sarawak	3107
Total	3435

LOCATION	SIZE (Ha)
HCV Bukit Piton Forest Reserve at Haranky 2 estate, Lahad Datu	4.8
HCV Lamaq Forest Reserve at Pintasan 3, Lahad Datu	8.2
HCV Kinabatangan wildlife riparian at Pintasan 7 and Pintasan 9, Lahad Datu	105
HCV Fire barrier area, Sarawak	65
CCA Steep sloping within Sabah Kinabatangan plantation area (Unplanted)	210
CCA Bawang and Lemai estates, Ulu Balingian, Sarawak	1530
CCA Arip Land & Buloh Land, Sarawak	1512
Total	3435

Kwantas has a Zero Tolerance Policy towards hunting, injury, possession and killing of rare and endangered wildlife within the Group's plantations. Kwantas has been educating its employees and local communities as well as related stakeholders the importance of conserving rare and endangered species. Estate personnel are also provided adequate training on wildlife and biodiversity protection, such as Honorary Wildlife Warden Training Course. The Group works closely with local NGOs and the State Wildlife Agency when translocation of endangered species is needed.

Summary of the International Union for Conservation of Nature ("IUCN") List of Threatened Species in Group's plantations' areas of operation is provided below:

Mammals	Critically Endangered	1
	Endangered	1
	Vulnerable	5
	Near Threatened	1
	Least Concern	12
	Data Deficient	2
Birds	Vulnerable	3
	Near Threatened	2
	Least Concern	28
	Data Deficient	6
Reptiles	Vulnerable	1
	Least Concern	2
	Data Deficient	2
Plants	Critically Endangered	3
	Endangered	2
	Vulnerable	1
	Not Assessed by IUCN	130



SUSTAINABILITY STATEMENT (Cont'd)

ENVIRONMENTAL SUSTAINABILITY (Cont'd)

Greenhouse Gas Emission ("GHG")

In the calendar year 2018, Kwantas had set relative targets for 10% reduction in carbon emissions intensity (tonnes of CO₂e per metric tonne of CPO produced) by calendar year 2019 against a 2016 calendar year baseline for Haranky, Mewah and Pintasan production units. Total net emissions for each tonne of CPO and PK were at 0.87 tCO₂e, as compared to 0.93 tCO₂e in calendar year 2017, a reduction of 9%.

Annual GHG intensity trend (Haranky palm oil mill and its supply base from calendar year 2016 onwards) is summarised as follows:



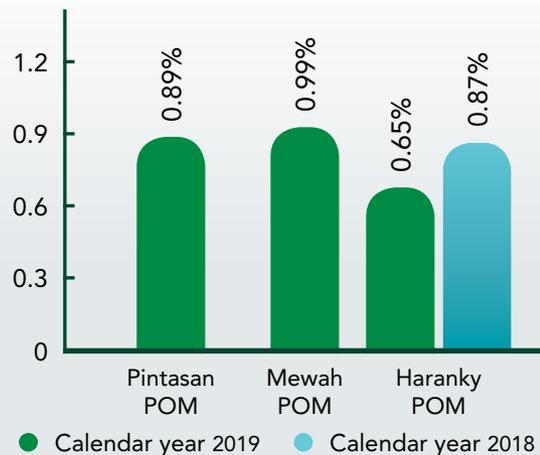
Finalised Calculations of GHG Emissions for Lahad Datu Upstream Operations

For the calendar year ended 31 December 2019, the Group had monitored and calculated GHG emissions from thirteen (13) most significant plantations within the Group. The largest contributors to GHG are derived from palm oil mill effluents ("POME") followed by fertiliser application.

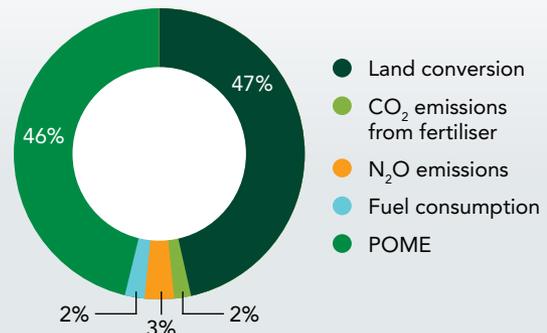
The Group's initiatives to improve GHG performance include:

- Maintaining effective Hydraulic Retention Time ("HRT") of POME in the effluent ponds through both conventional and continuous desludging;
- Stringent nitrogen fertiliser application procedures are applied. This means fertiliser will not be applied during dry periods to reduce volatilisation of ammonia gas and also during very wet periods. Such practice will minimise the risk of N₂O emissions related to nitrogen fertiliser utilisation.
- Monitoring the use of generators for housing electricity. Ensure no wastage of fossil fuel and energy use. Plantation units which have accessibility to national grid will be connected whenever possible, thus reducing emissions from diesel generators.
- Optimising the quality of FFB produced, hence resulting in a higher percentage of utilisation in the mills.

Emission Intensity (tCO₂e/MT)



Carbon Emission by source for calendar year 2019 (tCO₂e/MT)



SUSTAINABILITY STATEMENT (Cont'd)

ENVIRONMENTAL SUSTAINABILITY (Cont'd)

Waste Management

The Group strongly promotes the concepts to reuse, recover and recycle. Kwantas is utilizing biomass by-products as organic fertiliser and an alternative fuel substitute for generators and boilers to reduce the emissions resulted from the use of fertilizers and diesel fuel in its palm oil mills and plantations. Besides, the Group will also apply 100% POME production as fertilisers in its plantation fields.

The Group aims to recycle and reuse the bulk of the solid and liquid waste generated from the CPO production process. The table below provides the detailed breakdown of the use of palm oil mill waste and by-products as organic fertiliser and fuel in the calendar years of 2018 and 2019:

Primary waste	Utilisation	Total Amount Recovered & Recycled		
		2018	2019	units
Empty Fruit Bunches	Fertiliser & biomass fuel	27104	97011	Tonnes
Mesocarp Fibers	Fertiliser & biomass fuel	63879	109085	Tonnes
Shells	Biomass fuel	14978	14311	Tonnes
POME	Fertiliser	318373	356959	M ³

Treated POME is allowed for land application according to discharge standards under the national regulation. Approval from the Department of Environment ("DOE") must be obtained by palm oil mills before POME is used for land application.

In the production site, operation and domestic waste produced were less than 50kg per day. This waste would be segregated, labelled and secured in temporary storage facilities. Hazardous and scheduled waste would be handled securely before collected and transported by licensed contractor for proper disposal in accordance with DOE and national legislations.

During the calendar year 2019, each palm oil mill produced an average 1.7 tonnes of scheduled waste. There was no significant spill or unlawful act reported.

Reducing Water Footprint in the Nursery

Oil palm seedlings are raised in nurseries located within the Group's plantations. Water used for nursery irrigation is mainly sourced from surface water that has been used for the Group's oil mills and plantations. In line with the Group's replanting programme in the coming years, more seedlings are being raised at the nurseries.

Among the steps taken to ensure sustainable source of water for the Group's nurseries are to carry out rain water harvesting. Rain water harvesting essentially entails the accumulation and redistribution of rain water for reuse on-site rather than allowing it to run off. Rain water is collected in catchment ponds which are constructed to hold large quantities of rain water to irrigate the nurseries.



SUSTAINABILITY STATEMENT (Cont'd)

SOCIAL RESPONSIBILITY

Community Services and Development

Being a responsible corporate citizen, Kwantas cares and is committed to support and give back to the local community as a way to strengthen the society. During the year under review, the Group had made various contributions and donations to societies, associations, schools and non-profit making organisations through various community projects organised.

The Group provides internship programmes to assist interns from various local universities, higher learning institutions and training centres to undergo practical training within the Group's various operating units. At the end of the internship programme, suitable and potential candidates will be identified to fill up vacancies within the Group in line with the Group's planning on future expansion.

The Group had developed thousands of hectares of Native Customary Rights ("NCR") land into oil palm estates as a result of the joint venture project with Sarawak government. Job opportunities are provided to the local community, particularly to the native landowners who participated in the NCR project. As at 30 June 2020, total NCR land surrendered to the Group were 3,304.16 hectares, of which 1,763.05 hectares had been planted with oil palms.

Employees' Engagement and Development

As part of Kwantas' continuing effort in recognising and acknowledging its employees' contributions towards the continuous growth and success of the Group, as well as the need to develop and grow in line with the Group's mission, Kwantas undertakes various activities including trainings, workshops and seminars to strengthen the employees' competencies, leadership skills and knowledge. Not forgoing the importance of health and welfare of its employees, the Group also encourages its employees to participate in outdoor or physical activities to promote good health, bonding relationship and mutual understanding among the Management and staff.

Kwantas fosters the spirit of volunteerism by encouraging its employees to participate in the Group's social responsibility projects organised all year long in giving back to the community and those in needs as well as creating awareness of current issues, such as charity or donation visit to the less fortunate and various other community programmes to create awareness on health-related issues, environmental protection and other social issues.

The followings were some of the charity and social programmes organised or participated by the Group and its employees during the year under review:

SUSTAINABILITY STATEMENT (Cont'd)

SOCIAL RESPONSIBILITY (Cont'd)

Kwantas Family Day Outing at Langkah Syabas Beach Resort, Kinarut

In order to create a better understanding and strengthen the bonding relationship between the Management and staff, a one (1) day family outing was held at a nearby local resort where all staff were participating in varieties of activities that would involve them and their family members. After a long hard day of fun and games, all the participants were heading home with fun and sweet memories.



Red Ribbon Gala Dinner by Tulsa CARES at Hilton Hotel, Kota Kinabalu

The Group showed its global awareness in meaningful social responsibilities by participating in the Red Ribbon Gala Dinner organised by Tulsa CARES, a non-profit organisation based in Oklahoma, USA which was created back in 1991 in providing care and social services supports for individuals living with HIV/AIDS and HCV in Oklahoma. The event was participated by various organisations through the sales of tickets or tables as ways of collecting donations of which the proceeds would be channeled to the organisations providing assistance and need of those affected by the disease.



SUSTAINABILITY STATEMENT (Cont'd)

SOCIAL RESPONSIBILITY (Cont'd)

Visit To Faith Caring Home, Limbanak

Faith Caring Home is a non-profit organisation operated by volunteers to provide care and rehabilitation for intellectually challenged residents to be self-reliant and cope with daily living skills. Food and essential items were donated during the visit to show moral support encouragement.



Kwantas Blood Donation Campaign at Imago Shopping Mall, Kota Kinabalu

"Your One Move May Save A Person's Life" – and Kwantas stands true to this motto as the Group collaborated again with the Queen Elizabeth Hospital, Kota Kinabalu, Sabah to organise a blood donation drive campaign. The campaign attracted a good number of donors in support of the function.



SUSTAINABILITY STATEMENT (Cont'd)

SOCIAL RESPONSIBILITY (Cont'd)

Chinese New Year 2020 Luncheon at Kwantas Head Office and Regional Office

In conjunction with the celebration of the new Lunar Year, an auspicious Chinese New Year luncheon was organised by the Management as a token of appreciation to all the staff for their hard work and contributions. Staff were also treated with lucky draws and lion dance performance.



SUSTAINABILITY STATEMENT (Cont'd)

SOCIAL RESPONSIBILITY (Cont'd)

"We Care, We Love" Charity Dinner (Proceeds in aid of the Wuhan Crisis), Dewan Hakka, Port View Palace Hall, Kota Kinabalu

Sabah State Government in collaboration with several non-governmental organisations initiated a fund-raising campaign via charity dinner to support the victims of the COVID-19 outbreak in China as a gesture of goodwill and solidarity with the affected country. A total of RM2 million were successfully raised through the charity dinner organised which exceeded the targeted RM1 million mark.



Outings And Recreational Activities for Estates and Plantations Division

For the Group's operations whether at its palm oil mills or plantations, it is not just about harvesting and milling. The staff would take time off to participate or organise hiking at the Tumunong Hallu Conservation Area at Darvel Bay, Lahad Datu. A family day was also organised at Haranky palm oil mill where the staff and their family members spent together with a day-full of fun activities.



This Statement was reviewed and approved by the Board of Directors at a meeting held on 15 October 2020.