“Sustainability” in its broadest term is simply described as the meeting of Kwantas Corporation Berhad (“Kwantas” or “the Group”) present needs without compromising the ability of the Group’s future generations to meet its own needs. The Board of Directors (“the Board”) of Kwantas is responsible for the broad direction and performance of the Group including playing an active role in directorial and formulating the sustainability strategy essential to the overall success of the Group.

Kwantas has always believed the sustainability of its core business would be largely impacted by three (3) important aspects that have material impact in achieving the Group’s sustainable development goal. The three (3) important aspects are categorized into economic, environment and social context. The Group focuses on prudent financial management to enhance stakeholders’ values, promotes environmental stewardship and good agricultural practices at its plantations and operating units. It is committed to improve the well-being of the communities within and around its operation areas.

**SCOPE**

This Statement covers the Group’s various activities in Malaysia and focuses on significant economic, environmental and social impact brought about by the Group’s business activities. The reporting period is for the financial year ended 30 June 2018.

**SUSTAINABILITY GOVERNANCE STRUCTURE**

The Group’s sustainability governance structure is as follows:

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Board of Directors  →  Group Chief Executive Officer  →  Head of Department
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Sustainability strategy and performance are overseen by the Board. The Group Chief Executive Officer is responsible for developing the Sustainability Policies and implementing the sustainable initiatives. A Sustainability Unit consisting of the heads of the plantation unit reporting directly to the Group Chief Executive Officer was formed in October 2017.
COMMITMENT

A Sustainability Unit for the plantation activities was formed in October 2017 and reports directly to the Group Chief Executive Officer. The Group is committed to operate in conformity with the environmental, social, legal, health, safety and other sustainability requirements. A significant part of the process is through obtaining relevant certifications for the Group’s activities. Kwantas is currently working closely with certification bodies such as ISO 9001, Hazard Analysis and Critical Control Point (“HACCP”), RSPO and MSPO.

Kwantas understands the importance of guiding its activities towards a sustainable approach to the environmental and social well-being. The following sustainability objectives are indicated in its Environmental and Social Policies:

• To protect Kwantas’ employees by minimizing occupational risks, providing them with adequate personal protective equipment and health coverage;

• To provide a fulfilling work environment, with possibilities for personal and professional development and access to training;

• To certify Kwantas oil palm operations in accordance with the RSPO standard and national industry-specific standard for oil palm plantations MSPO, which focuses on environmental and social aspects;

• To improve the level of performance by continuous improvement in Kwantas operations through periodical internal and external audits; and

• To minimize the impact of industrial activities on the environment through the strict enforcement on waste management and the use of hydrocarbons and chemical.
KWANTAS CORPORATION BERHAD (356602-W) • ANNUAL REPORT 2018

SUSTAINABILITY STATEMENT

### STAKEHOLDER ENGAGEMENT

Kwantas continuously engages with key stakeholders to align its business practices through various channels of communication. The table below summarizes the engagement process:

<table>
<thead>
<tr>
<th>Key Stakeholder</th>
<th>Engagement Channels</th>
<th>Key Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Authorities and Regulators</td>
<td>Meetings and dialogues, Site visits and audits, Briefings and trainings, Applications/submissions/compliance/certifications</td>
<td>Compliance with legal requirements and regulations, Industry guidelines and best practices</td>
</tr>
<tr>
<td>Customers</td>
<td>Meetings, Customers visits, Contract negotiation</td>
<td>Satisfaction in product and service quality, Timely delivery / shipment, Sustainability updates - certification, best management practices</td>
</tr>
<tr>
<td>Shareholders / Investors / Fund Managers</td>
<td>Annual General Meetings, Company website, Annual reports, Announcements via Bursalink</td>
<td>Business strategies and directions, Financial and operational performances</td>
</tr>
<tr>
<td>Local Communities / Non-Governmental Organisations / Associations / Local Tertiary Institutions</td>
<td>Volunteering opportunities and charitable events, Internship programmes, Donations/sponsorships, Meetings and dialogues</td>
<td>Responsible corporate citizenships through community services, Identify potential talent for future expansion, Strategic partnerships</td>
</tr>
<tr>
<td>Employees</td>
<td>Internal portal, New staff orientation, Annual appraisal, Training and development programme, Informal gathering to enhance bonding, Welfare and remuneration package</td>
<td>Personal advancement and career development, Employees’ welfare and benefits, Health and safety at work, Employees’ loyalty and team work</td>
</tr>
<tr>
<td>Contractors/ Suppliers</td>
<td>Meetings and briefings, Tender and bidding process, Site visits, Contract negotiations</td>
<td>Payment terms and timeliness, Long-term business relationship, Work ethics</td>
</tr>
</tbody>
</table>
ECONOMIC SUSTAINABILITY

Palm oil demand in the international oils and fats market remains strong. Price outlook for crude palm oil ("CPO") remains positive and is expected to be in the region of RM2,300 per MT. In the mid term, CPO price downside is expected to be limited given the wide discount that palm oil trades relative to soyoil, rapeseed oil which will help to stimulate demand.

Despite the loss of RM55.92 million in the financial year ended 30 June 2018, the Group achieved a positive cashflow position of RM25.17 million. The loss was mainly attributed to one-off none cash item impairment loss on property, plant, equipment and biological assets and loss on disposal of assets held for sale, and provision for long-term non-trade receivables amounting to RM41.64 million, RM22.18 million and RM8.44 million respectively.

The Group’s plantation management closely monitors its productivity, plantation yield and oil extraction rate, i.e the key performance indicators in ensuring performance target is achieved.

The Group is also modernised its plantation management practices by using unmanned aerial vehicles or more commonly known as drones couples with Global Positioning System ("GPS"). The counting of oil palm trees are an important part in the management of oil palm plantations with regards to fertilisations, harvesting and monitoring palm tree conditions. The Group uses drones to capture image for palm census and to perform geographic mapping. Information gathered through drone image capturing will be more accurate for analysis purpose, reduce human error, facilitate enhancement in term of efficiency and shorten response time.
RSPO PalmGHG Calculator

The Group uses the RSPO PalmGHG calculator to measure the GHG emissions of its RSPO-certified palm oil mills annually as required by the RSPO standards. The RSPO PalmGHG calculation is tested by using the latest version, PalmGHG 3.0.1. Historical data can therefore not be used as a definitive indicator of reductions and/or increases in carbon dioxide emissions year-by-year. The statistic below shows the data derived from the calculation using RSPO PalmGHG Calculator and obtained from the Group’s RSPO certified operational unit:
Based on the above illustration, the most significant emission by sources was derived from land conversion. This illustrated that the Group managed to bring down the total GHG emission in 2017 compared to 2016 as required in RSPO standard.

**GHG Emission Mitigation Measures**

Some of the measures that were undertaken by the Group for the financial year under review to reduce the GHG emissions include:-

- Avoiding development on peat soil;
- Creating awareness on the climate change-related advances in science for the reduction of GHG emissions;
- Recycling of palm biomass such as pruned fronds, old palm trunks and treated palm oil mill effluent back to the soil as natural fertilisers;
- Using palm oil shells and empty fruit bunches as renewable energy source to generate steam and electricity for mill processing; and
- Maintaining the collaboration with external researchers and consultants to explore alternative and innovative means to reduce GHG emissions.

Should there be any new development and replanting project, waste generated from land clearing will be used as biomass to further enhance the nutrient cycle of the soil.
ENVIRONMENTAL SUSTAINABILITY (cont’d)

Zero Burning

Kwantas continues to adhere to its strict policy of Zero Burning in the operation of land clearing for new development and also for replanting purposes. The Group will carefully monitor any hotspots arising near its assets using remote sensing technology applied in fire watch monitoring system from Global Forest Watch and comply with local regulations and standards as set out by the RSPO.

No Exploitation of People and Communities

The Group is dedicated to upholding and promoting the Universal Declaration of Human Rights for all its workers, contractors, indigenous people, local communities and all individuals impacted by the Group’s operations.

Respect and Recognize All Workers’ Rights

The Group respects workers’ rights in accordance with local and national laws, regulations and practices, including the International Labour Organization requirements for adequate work and core conventions on child labour, forced or compulsory labour, freedom of association and elimination of discrimination. Kwantas shows its commitments by assuring and supporting the Universal Declaration of Human Rights initiatives for all workers which include contract, temporary and migrant workers.

Health and safety

The Group takes safety very seriously and strives to reduce the number of accidents in its operations. This concerns not only its workers and employees, but also its families, contractors and visitors to its facilities. In overall, the Group has made progress with notable reductions in its Lost Time Injury Frequent Rate, while ensuring strict compliance to Standard Operating Procedures that have been developed. During the year under review, Kwantas achieved an accident rate of 0.70, an occurrence rate of 0.28 and a severity rate of 2.67 for all of Kwantas’ operations.
ENVIRONMENTAL SUSTAINABILITY (cont’d)

RSPO

The objective of RSPO is to promote the growth and use of sustainable palm oil products through credible global standards and stakeholder engagement. Kwantas has become an ordinary member of the RSPO under the category of Oil Palm Growers on 02 April 2014. Under RSPO guidelines, there is a need to comply with its principle and criteria (“P&C”) for certification and the Group believes that the integration of P&C within its daily operations and investment will support its goal of sustainably palm oil products produced. The Group is committed to promoting the growth and the use of sustainable palm oil towards the protection of the environment and sustainable social initiatives. As part of its commitment, the Group believes the need to promote environmental awareness and sustainable practices as well as to upkeep the Group’s social responsibility through an effective and responsible Management. The Group has placed a time-bound plan for all its plantation activities to progress toward receiving RSPO certifications for all the estates and mills.

Certification of Refinery and Edible Oil Complex

To advance the Group’s commitment toward the production of sustainable palm oil, the refinery of the Group has obtained its RSPO Supply Chain certification for its processed palm oil products segment, Kwantas Oil Sdn Bhd Edible Oil Complex – based in Lahad Datu on 28 September 2016. As a result, this unit is capable of supplying palm and palm kernel based products through mass balance mechanisms. This RSPO certification is valid until 27 September 2021. An annual surveillance audit will be conducted in order to ensure compliance is maintained.

Certification of Palm Oil Processing Mills

The primary assessment of RSPO certification for Haranky Palm Oil Mill together with its supply base was conducted in July 2017. With this audit, Haranky Palm Oil Mill and its supply base have been RSPO certified since December 2017. This certification re-iterates that the CPO produced by this mill is meeting the requirements set out by the RSPO and can be identified as RSPO CERTIFIED SUSTAINABLE PALM OIL. The Group’s plantations will be also audited for MSPO certification. Kwantas is on course to meet its aim to comply with this mandatory standard for all its mills and estates by 2019.

MSPO

The MSPO provides general principles for the implementation, establishment and improvement of the operational practices of a sustainable system incorporated in Malaysia in ensuring the sustainability of palm oil produced. This certification standard currently covers the oil palm industry supply chain comprising independent and organized smallholders, plantations and palm oil mills. It also includes grouping smallholders into Sustainable Palm Oil Clusters or other group management systems. Certification of palm kernel crushers, refineries and palm biomass and biofuel plants will be implemented once the standards are ready.

Being already RSPO certified, Haranky Palm Oil Mill and its supply base are set to be MSPO certified by end of 2018. Other operational units are due to be MSPO certified by year 2019.
SOCIAL SUSTAINABILITY

No organization can stand on its own. Kwantas believes that social sustainability is about understanding the business impacts that, whether directly or indirectly, the Group has on the people and society. The Group has always taken proactive ways in managing any adverse impacts on human rights and well-being of the society that may be related to the Group’s activities.

Human Capital Development

Kwantas recognizes the success of the business highly dependent on the performances of its employees. Investing in staff development and training programmes to build the necessary strength, competencies, leadership skills and knowledge of its people are the long-term commitment of the Group to meet employees’ career aspirations with an emphasis on continuous learning. The Group’s workplace policies are aligned with the International Labour Organisation Declaration on Fundamental Principles and Rights at work as well as the UN Guiding Principles on Human Rights, which are outlined as follows:-

(i) Forced Labour

No employee may be compelled to work through force or intimidation of any form, as a mean of political coercion or as punishment for holding or expressing political views.

(ii) Freedom of Association and Collective Bargaining

Kwantas respects the legal rights of its employees to form and become members of workers’ organisations, including labour organisations or trade unions. Kwantas believes that the interests of the Company and the employees are best served through a favourable, collaborative work environment between employees and Management.

There are no unions representing the Group’s plantations workers as National Union of Plantations Workers and all Malaysian Estate Staff Union are not recognized in Sabah. Nevertheless, the Social Liaison will visit the plantations and mills regularly to gather feedback and brief employees on the latest Kwantas’ developments. Kwantas also has grievance procedure in place that allows all employees to raise issues and seek redress. In addition, the Board of Kwantas has formulated Whistleblowing Policies and Procedures to encourage employees to report any malpractice, wrongdoing or suspected breach of law or rules and regulations within the Group without fear of retaliation or victimisation.

(iii) Equal Opportunities

Kwantas supports the principle of fairness and non-discrimination with the aims to treat individuals with respect, free from unlawful and unethical discrimination. In particular, it aims not to discriminate gender, race, ethnic origin, disability, sexual orientation, age or faith, but to build a workforce that is based on meritocracy.
SUSTAINABILITY STATEMENT

SOCIAL SUSTAINABILITY (cont’d)

Employees’ Engagement and Development

Kwantas recognizes the contribution made by its employees toward the continued growth and success of the Group. Kwantas’ employees are encouraged to volunteer their time in participating various indoor and outdoor activities as well as the Group’s corporate social responsibility projects organized throughout the financial year ended 30 June 2018 in order to foster better relationship and mutual understanding among the employees.

In order to equip the employees with the necessary strength, competencies, leadership skills and knowledge, various trainings, workshops and seminars are structured and organized based on individual employee training needs and types of job performed. The Group has also invested in a leadership training programme named International Strategic Transformational Leadership Programme (“ISTLP”) as part of the Group’s succession planning and continuous effort in attracting and retaining talented employees. This ISTLP programme provides a pipeline to enable the Group to develop and advance the capability of future leaders and managers through the provision of extensive learning resources and management proficiency.
Chinese New Year Luncheon
Kwantas Group welcomed the Chinese New Year 2018 by keeping its tradition of celebration and appreciation to its Management and staff. A lavish luncheon was held at a fine restaurant where red packets and lucky draws were also given out during the luncheon to amplify the Chinese New Year atmosphere.

Christmas Luncheon & Inter-Office Christmas Decoration Contest (Recycling Theme)
A simple luncheon gathering was held in the office as continuation of Kwantas’ Christmas tradition, followed by a gift exchange session among the staff which brought the staff together in festive cheer as they exchanged Christmas presents and also socializing with each other.

To make it a more joyous Christmas season during the month of December 2017, an Inter-Office Christmas Decoration Contest was organized of which staff were encouraged to decorate their respective floor/department by using only recycle items or materials. This move was in support of creating awareness on the importance of caring for the environment and that recycling was a good way to reduce wastages which could harm the earth.

The winners of Inter-Office Christmas Decoration Contest based on recycling theme were also announced before the end of the luncheon gathering.
Heroes Run

The Group shows its continuous strong support on charity event by sponsoring its staff to participate in Heroes Run in April 2018 organized by Seri Mengasih Centre, which is a special developmental centre located in Kota Kinabalu for special needs children.

Staff Fitness – Badminton & Swimming Activity

Kwantas believes in promoting healthy body and healthy mind among its staff. A fund was specially made available to support sports activities to encourage active healthy lifestyle.

Badminton sessions were regularly held by the staff to maintain physical fitness and positive mind. Swimming activities were also added into the “healthy-to-do” list to further encourage and promote health awareness among the staff. It was also an opportunity for the staff to get-together and promote friendship and camaraderie.
Family Day at Refinery & Mewah-Pintasan Oil Mill

Kwantas understands that having a balance family life is crucial to the staff. Family Day was organized respectively at the refinery and Mewah-Pintasan Oil Mill whereby all the staff and their family members were invited to join along.

Various tele-match and games were played at both event to strengthen relationships between co-workers and their family members. There were also lucky draws given away to lucky winners.
SOCIAL SUSTAINABILITY (cont’d)

Community Development

Kwantas is a corporation that cares and believes in the motto “To do good is the greatest joy”. Various community projects were organized during the year under review such as visit to the old folks home and less fortunate children, blood donation drives in collaboration with the local government hospital, sponsorship for the haemodialysis centre and other non-profit making organisations. During the year, the Group had made several contributions and donations amounting to RM104,350.00 to the societies, associations, schools and non-profit making organisations.

The Group offers internships to assist trainees from various local universities, institutes of higher learning and training centres to undergo practical training. At the end of the internship programmes, some suitable and potential candidates will be identified to fill up available vacancies for the Group’s future expansion.

The Group has a joint venture project with the Sarawak local land authority to develop Native Customary Rights (“NCR”) land in Sarawak. The Group had developed a total of 1,985.88 hectares of NCR land as at 30 June 2018, out of which 1,761.24 hectares had been planted with oil palms. Annual incentive payments will be consistently paid out by Kwantas to those NCR land owners joining the NCR project. Besides, the NCR project has also enabled the Group to provide job opportunities for the local community.

Kwantas Charity Visit to Jireh Home

In giving back to the community, Kwantas staff visited the Jireh Home at Tuaran, Sabah – a home for the less fortunate children in the nearby district. The Home is a shelter center for children who are neglected, under privileged and abused, all coming from nearby districts such as Pitas, Kota Marudu, Pulau Banggi, Kudat, Nabawan and Sipitang. Daily necessities, educational supplies, used and new clothes collected from a donation drive among Kwantas’ staff were also given out to the Home and the children during the visit.
Disaster Relief – Flood Donation
Following a continuous heavy downpour of rain during May 2018, many areas and districts along the West Coast of Sabah were badly affected. A lot of people were driven away or had to be evacuated from their homes. This was one of the worst disaster in the recent decade in the state and many properties and belongings were lost or destroyed in the flood.

The Penampang District Office reported that fourteen (14) villages under its purview were badly affected by the flash flood. In response to this flood disaster, Kwantas donated food, daily essentials and used clothes to the victims via the Penampang Flood Donation Relief Center.

Autism Fair
Kwantas sponsored Autism Fair organized by Program Pendidikan Khas Integrasi SMK Tansau, Penampang in collaboration with Pejabat Pendidikan Daerah Penampang. The Autism fair was held at Imago Shopping Mall, Kota Kinabalu, Sabah which received a good response and support from the public. A certificate of appreciation was presented to Kwantas during the fair.
Charity Visit to SMK Datuk Peter Mojuntin, Penampang

A fire broke out and destroyed the school’s hostel in the month of March 2018 and a total of 117 boys, aged between 13 to 15 years old, lost not only all of their personal belongings but their “home” as well.

In aid of the students’ losses, Kwantas organized a collection of used clothes and items in the office and the Company also donated some daily essentials and stationeries. It was then handed over to the school’s representative in a visit to the school.

Donation to Persatuan Hemodialisis Kinabalu Sabah

Believing in the motto “To do good is the greatest joy”, Kwantas continues its contribution to support the Charity Bazaar organized by Persatuan Hemodialisis Kinabalu Sabah (“PHKS”). PHKS is a center that provides affordable dialysis treatment and ensures it is accessible to all those in need of it, especially poor dialysis patients.
Blood Donation Campaign at Kota Kinabalu and Lahad Datu Regions

Kwantas staff offered their services to organize blood donation annually in collaboration with the Queen Elizabeth Hospital (in Kota Kinabalu) and Jabatan Kesihatan Lahad Datu in aid to increase the awareness and importance of donating blood – by refilling the blood bank to save lives of those in need. The staff also showed their support by personally participating in the blood donation.
SOCIAL SUSTAINABILITY (cont’d)

Regional Office Gotong Royong
Keeping in mind the importance of hygiene and cleanliness, a full scale Gotong Royong was organized at the Lahad Datu Regional Office. The District Officer of Lahad Datu, Sabah together with personnel from Jabatan Kesihatan were also present to officiate the event. All the Regional Office staff joined forces together to clean the office premises and surroundings of the office building.

CSR Malaysia Awards 2018
In recognition of the tireless and continuous efforts in giving back to the community, Kwantas was once again awarded the “CSR Malaysia Awards 2018” from the CSR Malaysia publication. It is an annual event honouring outstanding SMEs and giant corporations that have excelled tremendously in the socio-economic transformation of Malaysia.

Performance Indicators to Monitor Sustainability Management
The relevant performance indicators to monitor the Group’s sustainability initiatives and management have yet to be finalized and implemented as the Sustainability Unit is still in the process of collecting the relevant data.

This Statement has been approved by the Board of Directors on 18 October 2018.