

STRATEGIC AND FINANCIAL MATTERS

During the year under review, the Group registered a loss after tax of RM2 million (2015: profit after tax of RM59 million), which was mainly attributed to weaker contribution from the timber division, negative contribution from the oil & gas associate company and a one-off loss on disposal of a manufacturing subsidiary. The following are queries with regard to the divisional businesses of the Group and the Corporate Governance.

(1) TIMBER DIVISION

Question (a)

As reported in the Management Discussion & Analysis, the sales to its major market, India was hampered when the Indian government imposed the demonetisation policy. Deliveries were halted and were subsequently sold domestically albeit a lower selling price.

Please brief on the latest development of the demonetisation policy and what measures have been taken by the Board to mitigate the impact to its business operations?

Answer (a)

Our logs order have slowly recovered in 1Q2017 as the effects of the demonetisation policy has worn off and the Indian economy returned to normal.

Question (b)

Is there any plan to widen the market reach apart from the existing major customers?

Answer (b)

For the Group's logs market, India and Taiwan are major customers, attributing almost 90% of our logs capacity for export. Given that Sarawak's log export quota has been reduced to 30% from 40% and the fact that both these long-term major customers are able to absorb nearly all of our capacity, the Group is inclined to focus on these markets for now. For its downstream products nevertheless, the Group maintains a diversified customer base with Japan being the leading market.

Question (c)

One of the Division major risks is the revocation of timber license. Please brief the shareholders on the initiatives taken to address these risks and ensuring compliance comply with the relevant regulations.

Answer (c)

Our Resources Planning & Operations Department together with site management are tasked to monitor and enforce strict compliance to all governing Forest Ordinances and relevant rules so as to ensure timber operations are carried out legally and in a sustainable manner. Amongst the initiatives are:

1. To be legally registered.
2. To carry out approved Environmental Impact Assessment (EIA) studies and mitigation measures.
3. To carry out periodic checking of licence boundary both aerial and ground cruise.
4. To follow prescribed activities such as diameter cutting limits.
5. To royalty assess all logs produced.
6. To carry out harvesting operation with relevant approval such as road alignments with valid PEC.
7. To ensure no encroachment into protection and sensitive areas.
8. To comply with regulations related timber production, quota and log movement.
9. To ensure all workers are legal, trained for their job function, and provide adequate safety, health and insurance as required.
10. To pay royalty, premium and cess as specified in license conditions for log production and associated fees.
11. To identify and respect all respective native / communal rights within the timber operation areas.

Question (d)

Does the Board expect a better performance and higher contribution from the Division in FY2017?

Answer (d)

The supply side has gradually been undergoing stricter policing by the Government to ensure sustainability of the State's forest resources. This has inevitably led to higher costs that the Group has to manage effectively to maintain sales. Amidst these challenges, as well the demand outlook in major markets, the Group is cautiously optimistic and strives to improve its performance in FY 2017.

(2) PLANTATION DIVISION

Question (a)

What is the Group's current plantation landbank? Is there any plan to increase the level of landbank in the next few years?

Answer (a)

The Group's current plantation landbank is approximately 10,000 hectares. The Group is always on the lookout for opportunities to increase its landbank.

Question (b)

How would the Group plan to handle the Native Customary Rights claims and matters in the future?

Answer (b)

The Group has established a Conflict Resolution Committee with the main task to have open dialogues and negotiations with the natives to resolve NCR matters in an amicable manner.

(3) TAPE DIVISION (MANUFACTURING AND TRADING)

Question (a)

In FY2016, the Group disposed a manufacturing subsidiary which resulted in a one-off loss on disposal of RM9.5 million and was presented separately under loss from discontinued operation in the statement of profit or loss. The subsidiary was principally involved in the conversion of aluminium foils into various foil products.

What were the main reasons for disposing the outfit and does the Board expect the Division's performance to be normalised in FY2017?

Answer (a)

The tobacco segment was a major sales contributor which made up close to 50% of total sales of the disposed subsidiary. However, in recent years, product specification changes by its tobacco customers resulted in a gradual and significant decline in sales. Hence, when the offer for sale came about at a reasonable valuation, the Board made the decision to dispose the subsidiary.

The performance for the Group's manufacturing and trading division is expected to remain steady in 2017 subsequent to the disposal of the subsidiary.

Question (b)

Is there any serious discussion engaged by the Group as parts of its efforts to broaden its market reach and penetrate new markets especially overseas markets? Which markets that the Board foresees having the potentials and what are the main criterions that Group considers when penetrating these new markets?

Answer (b)

The Group is constantly on the lookout for opportunities to expand its market overseas. In addition to promoting cellulose tape to the New Zealand market, the division is currently developing variants of masking tapes, particularly water repellent masking tapes and high temperature masking tapes for the Korean market.

(4) OIL AND GAS DIVISION

During the year under review, the Division suffered a Loss After Tax of RM20.6 million, representing a significant fall in bottom-line results by more than 100% compared to a Profit After Tax of RM7.0 million in FY2015.

Question (a)

What is the Board's plan for the business in this Division's for the next few years? What is the current condition of the industry and assessment of the Board of the business viability under this Division's?

Answer (a)

The Board is committed to support the Oil and Gas business for the next few years, despite undergoing a challenging year in FY2016. However, the prognosis is positive for 2017 onwards, where we expect to see the industry's gradual recovery. The Group remains invested in the industry as it has now become the leading operator of DP2 Accommodation Workboats (AWB) in Malaysia. The AWBs will be in demand in tandem with the recovery, as they serve the entire lifecycle of the oil and gas industry.

With the gradual improvement in oil prices, we are seeing PETRONAS and the oil majors planning to resume offshore projects that were previously deferred and the resumption of critical maintenance projects. The Board is of the view that this remains viable in the medium term. This view is being reinforced with improved oil prices, as well as being guided by PETRONAS' outlook. This is evidenced by the resumption of contract awards by PETRONAS to key contractors in recent months.

The Group's associate company recently won a 3-year Umbrella AWB Spot Charter Contract directly from PETRONAS, to support its offshore campaigns. The contract is expected to begin in June 2017. At the same time, we are also pursuing other potential contracts in the region.

Question (b)

What is the Division's current vessels utilisation rate?

Answer (b)

As at April 2017, the vessel utilization rate is approximately 13%. However, we expect the utilization rate to improve significantly from June 2017, when the vessels are deployed for work under the Umbrella Contract.

CORPORATE GOVERNANCE MATTERS

Question (1) - Directors' Benefits

The Group is seeking shareholders' approval under the Resolution 3 for the payment of benefits of up to RM150,000 payable to Directors of the Company for the financial period from 1 January 2017 to 30 June 2018. Please provide the breakdown of the benefits payable to the Directors.

Answer (1)

The benefits of RM150,000 is for meeting allowance covering 18 months period, at the rate of RM1,000 per meeting and 8 directors in total, which comprise meeting of Board of Directors, Audit Committee, Remuneration Committee, Nomination Committee, Risk Management Committee and Annual General Meeting.

Question (2) - Long Serving Independent Non-Executive Directors

We noted that Lt. General Datuk Seri Panglima Abdul Manap Ibrahim (rtd) and Ms. Tham Sau Kien had served the Board as the Independent Non-Executive Directors of the Company for more than 9 years.

We hope the Board would take cognisance of the recommendations under the Malaysian Code on Corporate Governance 2017 related to Independent Director who have served the Board for more than 9 years.

Answer (2)

Your suggestion is duly noted for future consideration.
