

46TH ANNUAL GENERAL MEETING HELD ON 26 JUNE 2018

Queries & Answers for Minority Shareholders' Watchdog Group ("MSWG")

Financial and Strategic Matters

- 1. As reported in the Management Discussion and Analysis (MD&A) on page 16 of the Annual Report, two regulatory changes imposed by the State Government of Sarawak, i.e. reduction in export quota from 30% to 20% effective 1 July 2017 and steep hike in premium rate of hill timber from RM0.80 per m3 of logs harvested to RM50 per m3 effective 1 July 2017 could impact earnings in logs production.***

Question (a)

To what extent will these new regulations be expected to impact the profitability of the Timber Division in FY2018?

Answer (a)

The regulatory changes are expected to have a lesser impact to the profitability of the Group's timber division in FY2018 than when they were first imposed in FY2017. This is due to the Group having implemented appropriate measures to address the effects of these new regulations.

Question (b)

Please share the Group's strategies to mitigate the adverse impact from these new regulations.

Answer (b)

The Group has gradually revised its selling prices to counter the effect of the increase in hill timber premium rate. Additionally, the Group will continue to improve production efficiency to achieve lower production costs so as to remain competitive.

It has been the Group's priority to focus on the production of floor-base plywood which command a price premium over other grades of plywood in anticipation of reduction of log export quota. Given the restriction from lower logs export quota, the Group has proactively increased the production of floor-base plywood from the availability of suitable logs.

2. ***As stated in the MD&A on page 17 of the Annual Report, the Group has built up a strong and significant customer base in Japan, with 84% of its export sales to the country.***

Question

Would the export sales to Japan be expected to continue after the up-coming Tokyo Olympics in 2020?

Answer

The Group is already an established and dominant supplier of floor-base plywood to Japan. Leading up to the Tokyo Olympics in 2020, construction activities are expected to be robust. The Group has ramp up its concrete plywood production to cater for the anticipated growth spurt in construction as well. After the Olympics, the Group will re-focus on higher production of floor-base plywood to meet demand from housing starts, as well as the refurbishment needs of houses or buildings.

3. ***As reported on page 17 of the Annual Report, as at 31 December 2017, total mature palm hectarage stood at 7,300 hectares.***

Question (a)

What is the current total planted hectarage?

Answer (a)

The current total planted hectarage is 8,700 hectares.

Question (b)

What is the plantable hectarage and the planting schedule for the area?

Answer (b)

The remaining plantable hectarage for the Group is approximately 1,300 hectares, which the Group will activate its planting schedule once an amicable solution to the native customary rights issues have been reached.

Question (c)

What is the current average age profile of the palms?

Answer (c)

The current average age profile of the palms is 7 years.

Question (d)

With higher maturing palm hectarage projected in the coming years, when will the Division be expected to turn-around?

Answer (d)

The Group expects the Division to achieve breakeven in 2020 from the improved yield and higher fresh fruit bunches production, when the matured palms reach their prime production age.

- 4. The Segment Information on page 161 of the Annual Report shows that the Group's revenue in FY2017 is approximately 83% from Timber Division, 8% from Plantation Division and 9% from Trading & Manufacturing Division.***

Question

Given the challenges, such as change of timber policies and reducing natural forest resources encountered by the industry, does the Group have any plans to expand its plantation and manufacturing businesses to reduce dependency on the timber business or moderate the cyclical nature of the timber business and profitability of the Group, moving forward?

Answer

The policy changes, which aim to ensure the legality of timber and timber products from Sarawak for the international markets are seen positively for the long-term, although it presented short-term challenges for some industry players. The Group has always been practising sustainable forest management and has readily stepped up its timber operations to meet requirements for forest certifications including The Sarawak Timber Legality Verification System and The Malaysian Timber Certification Scheme. Arising from these, the Group has emerged as the dominant log supplier in Sarawak and intend to build on this position of strength to enhance its downstream value-added timber manufacturing operations.

Nonetheless, the Group whose strength is in resource-based operations, will continually explore synergistic opportunities, which include growing its oil palm plantations and downstream processing capacity. This approach is expected to provide a buffer to the cyclical nature of the timber business, with the ultimate aim to enhance profitability and shareholders' value.

5. ***As shown in the Statements of Profit or Loss and Comprehensive Income on page 60 of the Annual Report, the Group recognised a loss of RM196.651 million from discontinued operations in FY2017. The analysis of the result of the discontinued operations on page 107 of the Annual Report shows an Administrative and other expenses amounting to RM135.038 million.***

Question

Please provide details of the expense.

Answer

The discontinued operation's administrative and other expenses of RM135.038 million are made up of allowance for impairment loss of receivables of RM111.156 million, impairment loss on other investment of RM15.000 million, provision for onerous contract of RM6.994 million and operating expenses amounting to RM1.888 million. Operating expenses mainly consist of employee benefits and professional fees.

Corporate Governance Matters

1. ***The Company has under Resolution 3 sought shareholders' approval for payment of Directors' benefits up to RM86,000 for the financial period from 1 July 2018 to 30 June 2019. The Explanation Notes on the Resolution stated that the Directors' benefits comprise meeting allowance payable by the Company to its members of the Board and Board Committees.***

Question

How does the proposed meeting allowances compare with the amount for FY2017 shown on page 39 of the Annual Report?

Answer

The other remuneration for Directors of RM120,269 for FY2017 shown on page 39 of the Annual Report consists of total directors' meeting allowances of RM59,000 and the balance comprised of defined contribution plan and social security contribution for the Executive Director.

The proposed directors' benefits under Resolution 3 of RM86,000 is solely for directors' meeting allowance covering 12 months' period, at the rate of RM1,000 per day and eight (8) directors in total, which comprise of meeting of Board of Directors, Audit Committee, Remuneration Committee, Nomination Committee, Risk Management Committee and the Annual General Meeting. This is relatively higher than RM59,000 for FY2017, to allow for additional meetings where necessary.

2. ***The Company in its Corporate Governance Report has stated that it has applied Practice 12.3 of MCCG. Practice 12.3 refers to facilitating and providing a platform for shareholders to vote and participate at the General Meeting without being physically present at the Company's AGM. Based on the Company's explanation that "The Company's Annual General Meeting has been held in SibU, a city centre and not in remote location" given on the application of Practice 12.3, we wish to highlight that the Company has not applied the Practice.***

Question

Please take note of this.

Answer

It has been the Company's practice to hold Annual General Meeting ("AGM") in city centres and not in remote locations, to enable shareholders to participate at AGM. The Company's AGM in 2017 was held in SibU, a city centre. As such, the Company is of the view that it is not necessary at this point in time to provide for video or other forms of method of participation.

Should the Company hold its AGM in other locations which is deemed remote, the Company will leverage on technology to facilitate electronic voting and remote shareholders' participation.
