STRATEGIC & FINANCIAL MATTER

1) We noted that the Group's revenue declined by 2.8% and the profit after taxation also dropped by 49.4% for FY 2012. The Group's latest unaudited financial performance for the 1st quarter of FY 2013 had also turned into losses after taxation of approximately RM10.7million. What concrete measures have been taken to address the Group's deteriorating financial performance and when is the group expected to turn profitable again?

Answer:-

We believe you are referring to the 4th quarter of FY 2012.

The prolonged European debt crisis and the civil unrest in the Middle East countries have affected the demand for our products. Additional capacities from new plants and/or additional lines from competitors in Indonesia, Thailand and Vietnam had further impacted the prices and all this has therefore created a price war within the same industry worldwide.

The increase in cost of our raw materials and the currency fluctuation had all seriously affected profit margins of the Group.

In this situation, the Group has embarked on a strategy of having to reduce the cost of production to be able to be competitive in the current market. Therefore, a tight budget has been placed across the group and all capital expenditures have been put on hold for the time being.

Nevertheless, the Group can only strive to stay competitive in such a weak market but the profitability is very much depended on the worldwide demand of our products.

2) What was the reason for the Group to make advance payments to suppliers in FY 2012 up to approximately RM88.2million which was 203.8% higher than the advance payments to suppliers of RM29.0million made in FY 2011?

Answer:-

The advance payments were made for log concession projects (our main raw material) which we normally obtain from open tender bidding. This is to secure a consistent supply on majority of our log requirements. As to the increase between FY2011 & FY 2012, there were many areas open for tender in 2012 and we managed to secure the volume needed for the coming 1-2 years and therefore this has resulted in the increase of advances in year 2012.

3) The segmental result in Indonesia has never shown profitability since the Company started its operation in Indonesia in FY 2007. What steps have been taken by the Board and how soon does the Board expect to turn around the operation in Indonesia? Did the Board consider exiting the operation in Indonesia to stop any further losses?

Answer:-

As mentioned in our previous reply, the management had managed to resolved majority of the technical and operational issues as well as improved the machines efficiency in 2012. However, our Board's expectation for a turnaround in the 3Q 2012 was not realized due to some quality issues of which has since been overcome and the drop in market demand for MDF in the 3Q. Nevertheless, our Indonesian operation issues have all been resolved and their performance has since turn positive.

4) We noted that the Company had acquired additional shares in Evergreen Plantation Resources Sdn. Bhd. ("EPRSB") for a cash consideration of RM37, 999,900 on 19 December 2012. Kindly enlighten shareholders on the following:-

(i) What are the principal activities of Evergreen Plantation Resources Sdn. Bhd?

(ii) What were the percentage ratios for this transaction in accordance to the definitions of Section 10.02(g) of Bursa Malaysia's ("Bursa") Main Market Listing Requirements?

(iii) Was the transaction a related party transaction?

(iv) Was an announcement required to be released on Bursa's website?

(v) Was shareholders' approval required for this transaction?

Answer:-

(i) Evergreen Plantation Resources Sdn. Bhd principal activities are Managing of Plantation and is a wholly owned subsidiary of the Company.

(ii) The percentage ratios for this transaction were below 5%.

(iii) No, it was not a related party transaction in accordance to Bursa Main Market Listing Requirements but purely a transaction between the holding company and its wholly owned subsidiary.

(iv) No announcement was required as it was a subsequent increase in paid up capital of a wholly owned subsidiary of the Company.

(v) No Shareholders' approval was required.

** Transactions between holding & wholly own subsidiary are excluded from the scope. Please refer to 10.02 (l) & (iii).

CORPORATE GOVERNANCE

MSWG is promoting certain standards of Corporate Governance best practices in PLCs. In this regard, we hope the Board could address the following:-

1) As in our previous letter to the Company, we had stated our view that where a resolution such as the proposed Resolution 6 tabled is in advance for shareholders' approval, the basic rights of shareholders to deliberate on the Directors' fees once a year would be disenfranchised. The Board replied that the view of MSWG had been noted without any further explanation.

In view of the above, MSWG would like to urge the Board to explain the rationale for the Board to seek approval for the payment of Directors' fees for FYE 31 December 2013 in advance (see Resolution 6)?

Answer:-

The Board had deliberated on this matter and due to the changes in the Board of Directors we have decided to seek shareholders' approval in advance for this FYE 31 December 2013.