

## **STATEMENT ON SUSTAINABILITY**

The Board in compliance to the requirements of Bursa Malaysia Securities Berhad under Paragraph 9.45 (2) of the Main Market Listing Requirements (supplemented by Practice Note 9), are adopting the recommendation by providing a Statement on the Sustainability of the Group's business in the aspect of Economic, Environmental & Social ("EES").

### **Our Business Operations**

The Company was established in 1993 starting with a single manufacturing site in Johor, Malaysia and have since expanded to have eight manufacturing sites located in Johor, Negeri Sembilan, Kedah, Thailand and Indonesia with a total workforce of approximately 2700 employees.

Our key operation activities are in manufacturing of Panel Boards (Medium Density Fibreboard ("MDF") & Particle Board ("PB") with and without Overlay, Ready to Assemble Indoor Furniture ("RTA"), Wood Products (Furniture Parts) and Resin.

### **The Scope of Coverage**

The scope of our Sustainability Statement covers the core businesses of the Group of Companies in Malaysia, Indonesia and Thailand which are in operation but does not cover our plantation business unit in Malaysia, Jasa Wibawa Sdn. Bhd. as it is a non-core business of the Group.

### **Acknowledgement**

The Board acknowledges that the fundamentals of a business are very much depended on the Sustainable Vision, Mission, Values, Principles and Policies being established and maintained in a company and believe that all businesses just like any are basically established with a vision for growth with a hope to sustain for the longest period possible.

### **Our Sustainability Policy**

The Group aspire to create a sustained value on its businesses for stakeholders, customers, shareholders, regulators, environment, community and our employees through a responsible approach of how our business are carried out and where our business are being carried out in view to be able to sustain our position as the largest panel board manufacturer in the country and be position as a one stop recognized supplier / producer for Panel Board / Wood Products in Malaysia.

### **Our Sustainable Strategy**

The Group's Sustainable Strategy is to embed elements of Sustainability and make it an integral part for all decisions making process in the group's businesses.

### **Management and Monitoring**

Senior Management with the support of Key Officers and the Executive Directors oversees the Group's Sustainability approach and monitors the Strategy implementation as well as the improvements efforts and plans on sustainability and update the Board on the progress being achieved.

## Materiality Assessment

The basic materiality assessment process undertaken by the Group in the previous year was used and the areas which was considered as a sustainability risk to the business was reviewed to identify the improvements made and if any change of strategy were needed for a much positive outcome.

## On Area of the Environment

### Disclosure

Daily operations for majority of our plants, has a high possibility of chemicals or hazardous materials spillage occurring or emission of smoke & dust and generation of schedule waste from processes.

A lack of good environmental practices and enforcement may and can lead to incidents of being penalized, shut down by authorities, operating license being revoked due to non-compliance, operational inefficiency that could lead to reputation being ruined and impact to the profitability of the Group.

Managing the environmental pollution by proper maintenance and installation of pneumatic indicators / controllers in our machineries together with proper enforcement and monitoring on adherence to policies and procedures are particularly important, especially with our plans on expanding into new markets such as Japan and Europe. These markets are in fact stricter on companies for compliance and observance of environment related legislation requirements.

### Measures Taken

The Group has in place a complete environment policy and procedures that clearly highlight our commitment in preventing pollution to the environment as well as to ensure compliance to laws and regulations in relation to Environmental Regulations.

Ongoing, Environment Officers (EO) in subsidiaries meets EO of headquarters to set the standards across all operations by standardizing policies and procedures across the group, set targets dates for completion / measures to be taken and promote a culture where all employees share the same commitment to prevent environmental pollution in and around each plant for the betterment of the employees as well as the nearby general public.

The Guide on Self Regulations ("GSR") by Department of Environment for all Companies to comply since year 2016. Compliance to GSR requires Companies to report to the Department of Environment on how they have complied with the requirement in their company on a periodic basis and the Group has complied to this environment laws and requirement.

## Review Carried out in 2017

In reviewing the area of environment, the controls and measures taken have made improvements in the Group as compared to the previous financial year based on the compound / penalties seen in 2017. Based on our analysis on cases of penalties paid in previous years for the Group: -

Year 2017	Year 2016	Year 2015
RM10,500	NIL	RM90,000

Nevertheless, the Group will continuously review its environmental policies and carry out the needed controls & measures to avoid all possible mishaps or penalties on non-compliance.

## **On the Area of Economy**

### **Disclosure**

In the Group (Malaysia, Thailand & Indonesia) our main raw material for these production plants that are solely dependent on rubber wood and any disruption of supply will cause a material effect on the Group's productivity and eventually the profitability. The inconsistent or low wood supply can be caused by the monsoon weather. During this season, plantations or concession areas are at times flooded that affects the clearing works of such areas being delayed for a period of time. During these periods, the supply of raw material to most of our operation sites can be partially or fully disrupted similar to what was encountered in the 1Q & 2Q 2017. Should this happen, our plant's raw material supply will be affected and we can be forced to reduce the production speed or even stop production for a period of time.

Hence, there is a high risk for a disruption of production in the Group that can affect the profitability of the Group should the above situation does occur.

### **Measures Taken**

On the supply disruption of our raw material, first of all this is an inherent risk to all wood-based operations. EFB has placed emphasis in this area by keeping more stocks prior to the monsoon season and also anticipated periods where cutting / clearing of concession are low. However, rubber wood deteriorates over time so storage of rubber wood stock is limited to no more than 3 (three) months from time of harvest.

It is an inherent risk faced by the Group and it can only minimize the impact during this periods / season by having additional storage areas but it cannot eliminate this risk and during disruption of wood supply is to increase intake of wood chips in addition to logs and branches and carry out preventive maintenance during these times

### **Review Carried out in 2017**

Being an inherent risk faced by all wood industries, the Group in line with ensuring sustainability of the business is looking into importing its raw material as to avoid the non- availability and high cost of raw material in the group during the monsoon season. However, there have been hurdles that we firstly have to address and once being overcome, we can look forward to a positive outcome for a much sustainable source of raw materials during monsoon seasons.

## **On the Area of Occupational Safety of Health**

### **Disclosure**

In our operating plants, we have many ranges of machineries, where some are automated and some are semi-automated or even manual. For the automated machines, workers will only be required to monitor its function smoothly while the semi-auto and the manual machines need to be attended to at all times. Possibility of accidents occurring is considered high due to reasons of negligence by the workers or safety measures or safe practices not in place.

A lack of good safety and health practices and enforcement may lead to industrial accidents and cause machine (s) having stop orders. Based on the law, Company can be penalized or Directors being brought to court by authorities and this will cause unwanted operational stoppage and eventually loss in profits.

Hence, managing and enforcing the Safety and Health practices for proper safety guard being in place and enforcement of Personal Protective Equipment (“PPE”) wearing is inevitable as adherence to the safety and Health policies and procedures is extremely important given the fact that the Company has a record of major accidents.

### **Measures Taken**

The Group has in place a complete occupational safety and health policy that highlights its commitment to prevent injury, ensure compliance to laws and regulations in relation to occupational safety and health and promote a culture where all employees share the commitment to prevent injury at all cost.

Weekly enforcement audit has been put in place by the Safety Committee to check on non-conformance of Safety Requirements and wearing of PPEs.

### **Review Carried out in 2017**

In reviewing the area of Safety and Health the enforcement audit measures taken have made minimal improvements in the Group as compared to the previous financial year based on the number of injuries / industrial accidents seen in 2017. The analysis on injuries / accidents cases in previous years for the Group: -

<b>Year 2017</b>	<b>Year 2016</b>	<b>Year 2015</b>
60 cases	65 cases	83 cases

Hence, the Group have since revised some of its safety policies and reviewed its safety procedures for accident prone areas and put in place the needed control measures to avoid any serious industrial accidents and most importantly to reduce the current rate of accidents.

### **On the Area of Governance**

The Group is working towards achieving improvement with a robust sustainability strategy to be embed in all angles of the Business and the Board / Committee assures further emphasis will be given in all areas for improvements.

## OUR SUSTAINABILITY GOVERNANCE STRUCTURE

### BOARD OF DIRECTORS

Approves Sustainability Strategies & Oversees the Progress for Disclosure

### MANAGEMENT SUSTAINABILITY COMMITTEE

(Executive Directors & Key Officers)  
Establish Strategy for Board's Approval  
Oversee Implementation of Sustainable Strategies  
Report to Board on Progress  
Develop Plans & Timeline for Disclosure

### SUSTAINABILITY OFFICER

Ensure Procedures & Controls are in place for Departments / Functions  
Oversee Departments / Function to ensure  
Sustainability System is Managed

### SUSTAINABILITY COMMITTEE

(Operation Director / Manager)  
Strategy Implementation  
Ensure Procedures & Controls are embedded for all Functions  
Report on Progress of Sustainability Efforts / Measures

### Review by the Board

The Board having reviewed the Group's Sustainability efforts and the Policies, Procedures and measures taken is satisfied with the outcome of the review carried out on the areas of concern but acknowledges the need to further enhance the Sustainability processes in terms of widening the areas of assessments and linking it with the Company's objective and Risk Management in order to create value on the effort of embedding and implementation of Sustainability in the Group.

***The Board of Directors has approved this Statement on 6 April 2018.***