

We refer to your letter dated 20th May 2014 and hereby append below our explanation to the questions being raised.

## **STRATEGIC & FINANCIAL MATTER**

1) Question :-

Could the Board outline the strategies on controlling the production and logistic cost as these two costs has contributed to the group's losses in FYE 2013? How much would the Board expect the cost savings to be and what would be the expected savings to drive the Company to profitability.

Answer:-

**The increase in cost of production was mainly due to the decrease in our volume of production due to the lower demand of our products while the increase in the logistic cost was due to the further distance new markets / country that our finish products were exported. Therefore, the near to normal cost of production will only be seen once we increase our production volume to the maximum when the demand increases. As for the logistic cost, we need the global market for our exports and will be able to export to nearer markets/country if and when demand of our products increases in these markets.**

2) Question :-

In the Chairman's Statement, it was mentioned that the drop in the selling price of the Company's products was partly due to additional capacity from the regional producers in

Indonesia, Thailand and Vietnam. Would the Board consider any Acquisition or Merger (M&A) to mitigate competition and have better economies of scale?

Answer:-

**Acquisition or Merger with regional producers will no doubt mitigate competition and we are always open to any good deals. However the Board is of the view that the sudden influx of additional capacity will required a period of time for it to be absorbed by the current markets and hopefully with the European debt crisis over plus the mellowing of the civil unrest in the Middle East Countries, this additional capacity could be easily absorbed by these markets.**

3) Question :-

Could the Board explain whether the additional capacity and the drop in selling price are expected to prevail in the next few years and what is the outlook for this year?

Answer:-

**As mentioned above, the sudden influx of additional capacity will require a period of time for the market to absorb while the selling price will move in tandem with the supply and demand of the markets. Nevertheless, prices are seen on a slow and steady rise in our 2Q.**

4) Question :-

Could the Board inform the shareholders the nature of the fine for offences on violation of the Environment Act and Factory & Machinery Act? Could the Board explain the measures taken to mitigate the risks from recurring?

Answer:-

**The nature of fines are mainly due to fine dust emission, water contents at point of discharge to public drains not meeting requirements by the Department of Environment and Unsafe Acts or Lack of Supervision that may have caused industrial accident within the group of companies. Measure such as repairs to environment control equipment and machineries has been done. However, minor offences cannot be entirely mitigated due to the nature of the group's core operations which is the wood industry.**

5) Question :-

Please provide the major components of the "Other Expenses" amounting to RM4.96 million and explain the reasons for the significant increase when compared with FYE 2012.

Answer:-

**Major components in the "Other Expenses" consist of unrealized foreign exchange losses amounting to RM4.2million and on the other hand, in the "Other Income" consist of realized foreign exchange gains of RM3.5million.**

## **CORPORATE GOVERNANCE**

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

1) Question :-

In accordance with the Malaysian Code on Corporate Governance 2012 ("MCCG 2012") Recommendation 3.3, the Board must provide justification and seek shareholders' approval in the event it retains an Independent Director who has served in that capacity for more than nine (9) years.

We noted that in the case of one of the Directors who had served 10 years based on the disclosure in the Annual Report as an Independent director, there is neither any justification nor any resolution tabled to shareholders for approval of his retention as an independent director. Please explain.

Answer:-

**The Company was listed on the Main Board in March 2005 and this Director was appointed an Independent Director upon our listing. He would have therefore completed his 9<sup>th</sup> year service as an Independent Director on March 2014 and will be retiring at this coming AGM in accordance with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012.**

2) Question:-

We hope and encourage the Board to publish the Minutes or the Summary of Minutes of the General Meetings on the Company's website to be in line with the spirit of transparency and good corporate governance practices based on the ASEAN CG Scorecard which is being used to assess the level of CG Standards of PLCs in Malaysia by MSWG.

Answer:-

**Yes we will publish the summary of minutes of the annual general meeting on our company's web site.**