Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Samko Timber Limited

Stock code: 5LE

Meeting details:
Date: 5 June 2020
Time: 3.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. On 14 February 2020, the company announced a series of changes to the senior management team amidst a reorganisation of the group's operational structure. In addition, the group carried out a corporate restructure that included a capital reduction exercise to write off the accumulated losses to facilitate future equity-related fund-raising exercises to recapitalise and strengthen the balance sheet.

The group would also be focusing on the modernisation of its production facilities to increase efficiency, productivity and product quality. To grow its new markets, the Group would be looking to penetrate South Asia, Middle East, Africa, Eastern and Western Europe while awaiting recovery from key overseas markets such as the US and South Korea.

Export revenue dropped from Rp 2.14 trillion in FY2018 to Rp 1.79 trillion in FY2019.

(i) **How much of the drop in export revenue was due to the decline in the volume of export and how much was due to the lower average selling price?**

(ii) **Can management elaborate on its strategy to enter new markets?**

(iii) **To help shareholders better understand the group, can management provide shareholders with an overview of its major products/classes of products and the breakdown in revenue for the major product categories?**

(iv) **What is the level of capital expenditure to modernise its production facilities? How would the group be funding this?** Cash and cash equivalents at 31 December 2019 amounted to Rp 13.5 billion and the group's current liabilities exceeded its current assets by approximately Rp 153.6 billion.

(v) **If the group were to carry out an equity fund raising, how does the board ensure that minority shareholders would not be unduly diluted in the process?**

Q2. In September 2019, the group announced that it will acquire a 51% stake in PT Sumber Graha Maluku ("PT SGM") and pay up to US$20.7 million to PT SGM's parent company PT Barito Wanabinar Indonesia.

The target company will become an asset-holding vehicle that will acquire industrial forest plantations, forest concession rights of about 59,138 hectares in Indonesia, licences, plywood factories and other assets. This is part of the group's diversification into the upstream businesses as well as the expansion of its network to new Indonesia locations.

As shown in Note 37 (page 160 – Capital management), the group has total loans and borrowings amounting to Rp 1,300 billion. Total equity attributable to owners of the company amounted to just Rp 197 billion.

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From Note 28 (Loans and borrowings), it can be seen that the group has borrowing costs of 5.17% to 13.5% per annum. During the current financial year, the group is in technical breach of its financial covenant as a subsidiary of the group has not met certain financial covenant ratios requirement as set out in the loan agreement with a financial institution.

(i) **Has the board reviewed the financial position of the group and assessed the strength of its balance sheet?**

(ii) **With the group paying interest rates as high as 13.5% per annum, has management calculated the group's cost of capital?**

(iii) **What are the minimum hurdle rates used by the board/management in its investment thesis?**

(iv) **Does the group have the financial resources to invest in upstream businesses as these have a long gestation period and are capital intensive in nature?**

Q3. The nominating committee ("NC") comprises three directors, namely Mr Sim Idrus Munandar (chairman), Mr Ng Cher Yan and Mr Wee Ewe Lay Laurence John.

All three directors were appointed on 14 December 2007. Accordingly, each director has been on the board for more than 12 years. All three non-executive directors are deemed independent by the NC.

As stated in the terms of reference of the NC, one of the main responsibilities of the NC is to review the independent status of non-executive directors.

(i) **Can the NC help shareholders recall if the company has appointed any independent directors since its listing?**

(ii) **Can the NC elaborate in greater detail how the review of the independence of the long tenured directors was carried out? Was it carried out in a round-robin format where the director under review would be assessed by the other two NC members who would then be reviewed later in the same way?**

(iii) **With all three members of the NC subjected to the independence review, how effective was the NC at discharging its duties?**

The company has stated that it carries out the search for a suitable candidate through the contacts and networks of existing directors and may also approach relevant institutions, professional organisations or business federations to source for suitable candidates.

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(iv) **Would the NC consider making use of a professional search firm as the default practice to enable the board to cast its net wider and further improve the diversity and possibly the quality of the candidate pool?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)