



PLANT FOR THE **FUTURE**

ANNUAL REPORT 2020

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25th ANNUAL GENERAL MEETING



Auditorium Room, Ground Floor, No. 66-78,
Pusat Suria Permata, Jalan Upper Lanang,
C.D.T. 123, 96000 Sibul, Sarawak



Tuesday,
22 December 2020
11.30 a.m.

CORPORATE INFORMATION



BOARD OF DIRECTORS

MR. TIONG KIONG KING

Chairman,
Non-Independent
Non-Executive Director

YBHG. DATO' TIONG ING

Managing Director

MDM. NGU YING PING

Senior Independent Director

MR. TIONG ING MING

Independent Director

MR. POH KEE ENG

Independent Director

AUDIT COMMITTEE

Mdm. Ngu Ying Ping (Chairperson)
Mr. Tiong Ing Ming
Mr. Poh Kee Eng

NOMINATION COMMITTEE

Mdm. Ngu Ying Ping (Chairperson)
Mr. Tiong Kiong King
Mr. Tiong Ing Ming
Mr. Poh Kee Eng

REMUNERATION COMMITTEE

Mdm. Ngu Ying Ping (Chairperson)
Mr. Tiong Kiong King
Mr. Tiong Ing Ming
Mr. Poh Kee Eng

COMPANY SECRETARIES

Mdm. Ling Chieh Min (MIA 18531)
SSM Practicing Certificate No. 202008002152
Ms. Voon Jan Moi (MAICSA 7021367)
SSM Practicing Certificate No. 202008001906

REGISTERED OFFICE

No. 66-78, Pusat Suria Permata, Jalan Upper Lanang
C.D.T. 123, 96000 Sibu, Sarawak
Tel : 084-211 555
Fax : 084-211 545
E-mail : info@suburtiasa.com
Website : www.suburtiasa.com

SHARE REGISTRAR

Boardroom Share Registrars Sdn. Bhd.
Registration No 199601006647 (378993-D)
11th Floor, Menara Symphony
No.5, Jalan Prof. Khoo Kay Kim, Seksyen 13
46200 Petaling Jaya, Selangor, Malaysia
Tel : 03-7890 4700
Fax : 03-7890 4670

PRINCIPAL BANKERS

Affin Bank Berhad
Ambank (M) Berhad
Bank of China (Malaysia) Berhad
CIMB Bank Berhad
Hong Leong Bank Berhad
Malayan Banking Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Berhad

AUDITORS

Crowe Malaysia PLT (LLP0018817-LCA & AF 1018)
Chartered Accountants
1st Floor No. 1
Lorong Pahlawan 7A2
Jalan Pahlawan
96000 Sibu, Sarawak
Tel : 084-211 777
Fax : 084-216 622

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

Stock name

SUBUR

Stock Code

6904

PROFILE OF DIRECTORS



MR. TIONG KIONG KING

Chairman
Non-Independent Non-Executive Director

AGE 73

NATIONALITY Malaysian

GENDER Male

Mr. Tiong Kiong King was appointed to the Board of Directors (“Board”) of Subur Tiasa Holdings Berhad on 21 June 1997 and was subsequently appointed as Chairman of the Board on 19 March 2013. He is also a member of the Nomination and Remuneration Committees of the Company.

Mr. Tiong Kiong King has more than 49 years of managerial experience in the timber industry in various capacities. Presently, Mr. Tiong also holds key posts in several non-government organisations. Among them, he is the Life Honorary President for Sibu Chinese Chamber of Commerce and Industry, Vice President of World Federation of Fuzhou Association Limited, Life Honorary President of Persekutuan Persatuan-Persatuan Foochow Sarawak, Honorary Chairman of the World Zhang Clan Association Limited and Chairman of Persatuan Klan Zhang Negeri Sarawak. He is also the Vice Chairman of a public listed company, Rimbunan Sawit Berhad.

YBHG. DATO’ TIONG ING

Managing Director

AGE 63

NATIONALITY Malaysian

GENDER Female

YBhg. Dato’ Tiong Ing was first appointed to the Board of Subur Tiasa Holdings Berhad on 25 July 2001 and was subsequently appointed as the Managing Director on 1 October 2003.

YBhg. Dato’ Tiong Ing holds a Bachelor of Arts Degree in Business Administration from University of Winnipeg, Manitoba, Canada. She has more than 39 years hands on experience, in-depth knowledge and extensive market network in the timber industry and more than 15 years exposure in the oil palm plantation industry.

On 19 July 2007, YBhg. Dato’ Tiong Ing was conferred with Darjah Sultan Ahmad Shah Pahang (D.S.A.P) which carries the title “Dato”. Between 2009 and 2011, YBhg. Dato’ Tiong Ing was appointed as director of EON Bank Berhad and sat on the Bank’s Board Group Credit Committee. YBhg. Dato’ Tiong Ing has been actively involved as a Council member of Sarawak Timber Association (“STA”) which has more than 400 members from companies involved in timber, timber related industries and trades. She also acts as Chairperson of STA Log Marketing Committee for 2018 and 2019. YBhg. Dato’ Tiong Ing has been an Industry Advisory Council member of University College Technology Sarawak since April 2016.



PROFILE OF DIRECTORS (CONT'D)



MDM. NGU YING PING

Senior Independent Director

AGE 60

NATIONALITY Malaysian

GENDER Female

Mdm. Ngu Ying Ping joined the Board of Subur Tiasa Holdings Berhad on 29 June 2009. She was subsequently appointed as the Chairperson of Audit, Nomination and Remuneration Committees of the Company on 19 March 2013.

Mdm. Ngu Ying Ping graduated with Bachelor of Economics (Major in Accounting) from Monash University, Melbourne, Australia. She is a member of the Malaysian Institute of Accountants, Fellow Member of the Malaysian Institute of Taxation, Fellow Member of the CPAs Australia and Affiliate of Malaysian Institute of Chartered Secretaries and Administrators. She does not hold directorship in any other public company.



MR. TIONG ING MING

Independent Director

AGE 63

NATIONALITY Malaysian

GENDER Male

Mr. Tiong Ing Ming joined the Board of Subur Tiasa Holdings Berhad on 19 March 2013 and he is a member of the Audit, Nomination and Remuneration Committees of the Company.

Mr. Tiong Ing Ming graduated with a Bachelor of Building (Hons) from University of Melbourne, Australia in 1982 and began his career in a consulting quantity surveying practice since 1994. He is a registered quantity surveyor of the Board of Quantity Surveyors, Malaysia and a member of the Institution of Surveyors Malaysia. He also sits on the Board of a public listed company, Rimbunan Sawit Berhad.

PROFILE OF DIRECTORS (CONT'D)



MR. POH KEE ENG

Independent Director

AGE 71

NATIONALITY Malaysian

GENDER Male

Mr. Poh Kee Eng joined the Board of Subur Tiasa Holdings Berhad on 14 September 2015 and he is a member of the Audit, Remuneration and Nomination Committees of the Company.

Mr. Poh Kee Eng graduated with a Bachelor of Science (Hons) and Diploma in Education from University of Malaya in 1975 and began his career as a teacher, and subsequently as a School Inspector of Sarawak Education Department Kuching and then a School Principal from 1976 to 2005. He joined Subur Tiasa Holdings Berhad as a Human Resources Manager in 2005. He then served as Senior Manager, Administration and Human Resources Department and was also in charge of Corporate Social Responsibility from 2007 to 2014. He had extensive exposure to logging, manufacturing and oil palm operations. He also has vast experience in management and training. He does not hold directorship in any other public company.



OTHER INFORMATION OF DIRECTORS:

- | | |
|---|---|
| <p>(i) Family Relationship
None of the Directors have any family relationship with each other or the major shareholders of the Company, except as disclosed below:</p> <ul style="list-style-type: none"> • Mr. Tiong Kiong King is a brother of YBhg. Tan Sri Datuk Sir Diong Hiew King @ Tiong Hiew King, a major shareholder of the Company and an uncle to YBhg. Dato' Tiong Ing, who is the Managing Director of the Company. • YBhg. Dato' Tiong Ing is the daughter of YBhg. Tan Sri Datuk Sir Diong Hiew King @ Tiong Hiew King, a major shareholder of the Company and a niece to Mr. Tiong Kiong King who is also a Director of the Company. | <p>(iii) List of Convictions for Offences
None of the Directors has been convicted of any offence, other than traffic offences within the past five (5) years and there was no public sanction or penalty imposed by the relevant regulatory bodies during the financial year under review.</p> |
| <p>(ii) Conflict of Interest
None of the Directors has been involved in situation that will create a conflict of interest with the Company.</p> | <p>(iv) Attendance of Directors at Board Meetings
There were four (4) Board Meetings held during the financial year ended 31 July 2020. Details of attendance of each Director at Board Meetings are as stipulated in the Corporate Governance Overview Statement set out on page 31 of this annual report.</p> <p>(v) Securities holdings in the Company and its subsidiaries
The Directors' shareholdings as at 30 October 2020 are as disclosed on page 151 of this annual report.</p> |

PROFILE OF KEY SENIOR MANAGEMENT

MR. TENG KING HUAT

Chief Operating Officer

AGE 57

NATIONALITY Malaysian

GENDER Male



Mr. Teng King Huat was appointed as Chief Operating Officer of Subur Tiasa Holdings Berhad on 1 September 2015.

Mr. Teng King Huat graduated with a Bachelor of Engineering (Chemical) degree from University of Adelaide, Australia. Prior to his appointment as Chief Operating Officer of Subur Tiasa Holdings Berhad, he had also served as Personal Assistant to Managing Director, Dato' Tiong Ing since 2008. During his tenure with Rimbunan Hijau Group and Subur Tiasa Holdings Berhad, he has acquired extensive exposure in businesses of chemical, logging, timber based manufacturing and oil palm. He has more than 20 years of diversified experience in strategic and operational management.

He does not hold directorship in any public companies and listed issuer. He has not been involved in situation that will create a conflict of interest with the Company and has no conviction for offences within the past five (5) years. There was no public sanction or penalty imposed on him by the relevant regulatory bodies during the financial year under review.

CORPORATE STRUCTURE



SUBUR TIASA HOLDINGS BERHAD

[Registration No.: 199501012590 (341792-W)]



TIMBER OPERATIONS AND REFORESTATION

- ▶ **100%**
AA Plywood Sdn. Bhd.
- ▶ **100%**
Borneo Lumber Industries Sdn. Bhd.
- ▶ **100%**
Diamond Biowood Sdn. Bhd.
- ▶ **100%**
Excel Logging Sdn. Bhd.
- ▶ **100%**
Excelle Timber Sdn. Bhd.
- ▶ **100%**
Grace Million Sdn. Bhd.
- ▶ **100%**
Homet Raya Sdn. Bhd.
- ▶ **100%**
JPH Logging Sdn. Bhd.
- ▶ **100%**
R H Timber Processing Industries Sdn. Bhd.
- ▶ **100%**
Saraju Holding Sdn. Bhd.
- ▶ **100%**
Sarawak Plywood (M) Sdn. Bhd.
- ▶ **100%**
Semarak Veneer & Plywood Sdn. Bhd.
- ▶ **100%**
Subur Tiasa Forestry Sdn. Bhd.
- ▶ **100%**
Subur Tiasa Particleboard Sdn. Bhd.
- ▶ **100%**
Subur Tiasa Plywood Sdn. Bhd.
- ▶ **100%**
Trimogreen Sdn. Bhd.



OIL PALM OPERATIONS

- ▶ **100%**
Blessings Palm Sdn. Bhd.
- ▶ **100%**
Fruitful Palm Sdn. Bhd.
- ▶ **100%**
Infrapalm Sdn. Bhd.
- ▶ **100%**
Palmlyn Sdn. Bhd.
- ▶ **100%**
Tiasa Mesra Sdn. Bhd.
- ▶ **100%**
Tiasa Palm Sdn. Bhd.
- ▶ **100%**
United Superland Sdn. Bhd.
- ▶ **100%**
Victory Round Sdn. Bhd.
- ▶ **60%**
Victory Pelita Kabah Sdn. Bhd.
- ▶ **75%**
Hahn Fert Sdn. Bhd.



OTHERS

- ▶ **100%**
Allied Asiatic Sdn. Bhd.
- ▶ **100%**
Blessings Realty Sdn. Bhd.
- ▶ **100%**
Dchord Sdn. Bhd.
- ▶ **100%**
Enerrich Sdn. Bhd.
- ▶ **100%**
Powerpuff Alliance Sdn. Bhd.
- ▶ **100%**
Honeybrix Sdn. Bhd.
- ▶ **100%**
Joyful Realty Sdn. Bhd.
- ▶ **100%**
JPH Enterprise Sdn. Bhd.
- ▶ **100%**
LX Photonics Sdn. Bhd.
- ▶ **100%**
Mamo Sdn. Bhd.
- ▶ **100%**
Momaspace Sdn. Bhd.
- ▶ **100%**
Momaworld Sdn. Bhd.
- ▶ **100%**
Momawater Sdn. Bhd.
- ▶ **100%**
MOMA Marketing Pte. Ltd.
- ▶ **100%**
Subur Global Pte. Ltd.
- ▶ **100%**
Subur Properties Sdn. Bhd.
- ▶ **100%**
Tiasa Heights Sdn. Bhd.
- ▶ **100%**
Prestige Superland Sdn. Bhd.
- ▶ **100%**
Subur Tiasa R&D Sdn. Bhd.
- ▶ **100%**
Supreme Standard Development Sdn. Bhd.
- ▶ **100%**
Tiasa Cergas Sdn. Bhd.
- ▶ **100%**
T.Q. Oriental Sdn. Bhd.

CHAIRMAN'S STATEMENT FOR THE FINANCIAL YEAR ENDED 31 JULY 2020



MR. TIONG KIONG KING
CHAIRMAN

Dear fellow shareholders,

On behalf of the Board of Directors of Subur Tiasa Holdings Berhad, it is my pleasure to present the Annual Report and Audited Financial Statements of the Group for the financial year ended 31 July 2020.



FINANCIAL PERFORMANCE

The Group achieved a significant improved earnings before interest, taxation, depreciation and amortization ("EBITDA") of RM54.2 million in financial year ("FY") 2020. This represented an increase of 66% from RM32.7 million in FY2019. Revenue recorded was RM329.9 million, a 5% growth from RM314.6 million. The Group has successfully reduced its pre-tax loss

by 62% from RM28.3 million to RM10.8 million. This was mainly due to our prudence in making provision for impairment loss of RM12.4 million on financial assets and property, plant and equipment. The notable improvement in performance was attributed to the concerted efforts of the management team in boosting the fresh fruit bunches production and increasing

CHAIRMAN'S STATEMENT (CONT'D) FOR THE FINANCIAL YEAR ENDED 31 JULY 2020

operational efficiency, coupled with the uptrend of crude palm oil price towards the financial year end. Net assets per share stood at RM2.87 as at end of FY2020.

The Group's financial and operation performance will be further reported in the Management Discussion And Analysis section.



CORPORATE DEVELOPMENT

During the year, the Group has successfully obtained Malaysian Sustainable Palm Oil certification for all oil palm estates. Our Group has attained another milestone for our timber segment as our Mujong-Melinau Forest Management Unit has achieved Forest Management Certification under the Malaysia Timber Certification Scheme on 24 August 2020.

As the Group continues its journey towards continuous growth and innovation, human capital remains as one of the greatest assets to the Group. Hence, the Group has sought to develop the leadership capabilities and skills-sets of employees in all key business areas. Concurrently, our Group has optimized our manpower for sustainable business future amidst the uncertainties in global environment and economic downturns arising from the on-going Covid-19 pandemic. Our Group has leveraged on various information technology platforms, such as digitalization and integration of data analytics to enhance operational monitoring and transform our business support units towards strategic planning and decision making.



GOING FORWARD

In the pursuit of achieving sustainable profitability in the long run, we are confident to achieve better results with timely evaluation of the effectiveness of the Group business models and strategic plans. We are committed to gear up our operations by improving yield, optimizing resources, rationalizing cost and embracing enterprise risk management in order to ensure the Group stays resilient in this challenging economic outlook due to Covid-19 pandemic.



APPRECIATION

I would like to thank my fellow Board members for their invaluable advice and contributions. I am also very grateful to the resourceful management team under the agile leadership of Managing Director, Dato' Tiong Ing and the staff for their dedication and hard work.

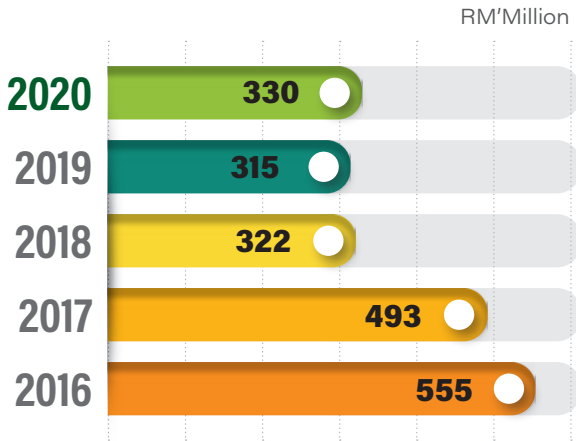
On behalf of the Board, I wish to extend my heartfelt gratitude and appreciation to our valued shareholders, customers, suppliers, financial institutions, business associates and various regulatory bodies for your continuous support and confidence in the Group. We will continue to remain steadfast in our transformation journey, anchored on our commitment to delivering values to our stakeholders.

Tiong Kiong King
Chairman

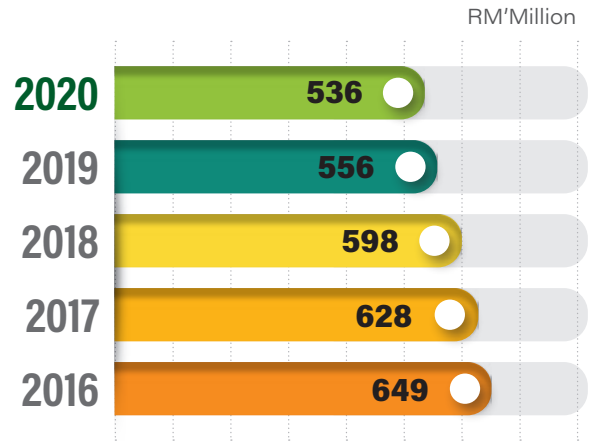


FINANCIAL HIGHLIGHTS

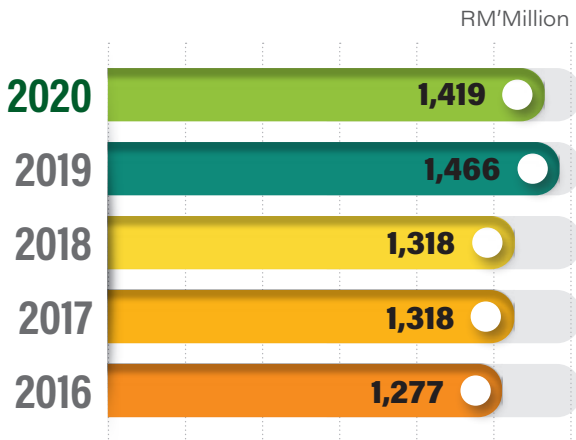
REVENUE



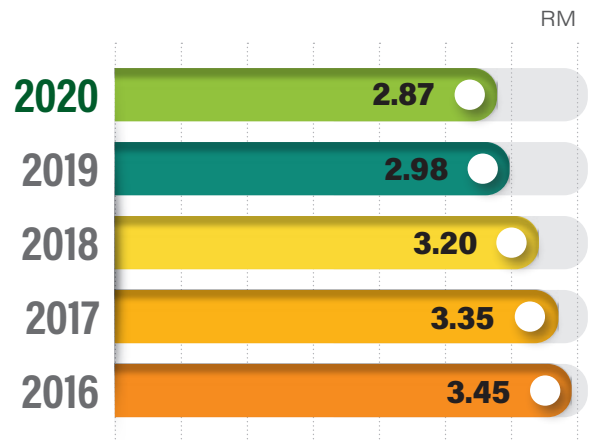
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS



TOTAL ASSETS



NET ASSETS PER SHARE



BREAKDOWN OF REVENUE BY SEGMENT



FYE 2020 **59%**
 FYE 2019 **66%**



FYE 2020 **39%**
 FYE 2019 **32%**



FYE 2020 **2%**
 FYE 2019 **2%**

MANAGEMENT DISCUSSION AND ANALYSIS BY GROUP MANAGING DIRECTOR



OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

Subur Tiasa Holdings Berhad Group ("The Group") continues to develop oil palm and timber as the main core business segments during the year in review.

The Group improves the performance of oil palm segment by stepping up production volumes of fresh fruit bunches ("FFB") and operational efficiency in the estates. Good Agricultural Practices ("GAP") are embedded in the estate management system to improve the FFB yield and fruit quality with higher oil extraction rate. Mechanization program especially on the infield FFB evacuation and timely review of the workers retention program are implemented to optimize the deployment of labor.

The Covid-19 global pandemic towards the second half of the financial year has resulted in weak market demands on the Group's downstream manufacturing of timber

products. We adopt a lean business model to improve business processes across the value streams and reduce operation cost without affecting the quality of outputs. We leverage on innovative processes and equipment to increase productivity and maximize resource utilization. The Group continues to monitor the scale of production and synergize our wood processing operations.

OIL PALM SEGMENT

Our oil palm estates are located in Sibul, Mukah, Samarahan and Kapit regions with a total land bank of over 44,000 hectares. The weighted average palm age is 8.4 years old. Our oil palm segment is expected to boost its share of contribution to the Group in line with the expansion of matured planted areas and the growth of matured crops from young mature to prime age. To ensure compliance and sustainability of our oil palm segment, we have successfully obtained Malaysian Sustainable Palm Oil ("MSPO") certification for all of 5 estates.

5 Estates
with **MSPO Certification**

Weighted Palm Age

8.4 years

Land Bank

>44,000 Hectares

Annual Growth of

FFB Volume **16%**

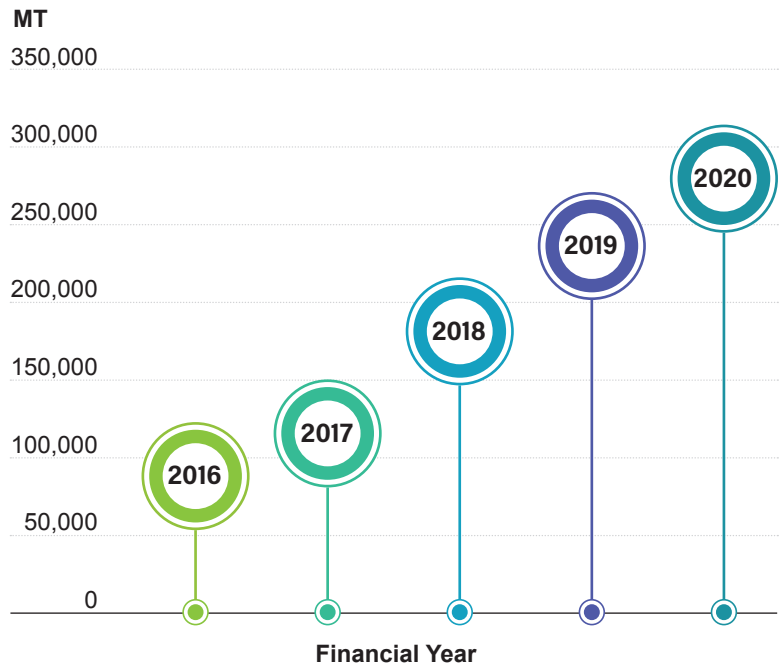


MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D) BY GROUP MANAGING DIRECTOR

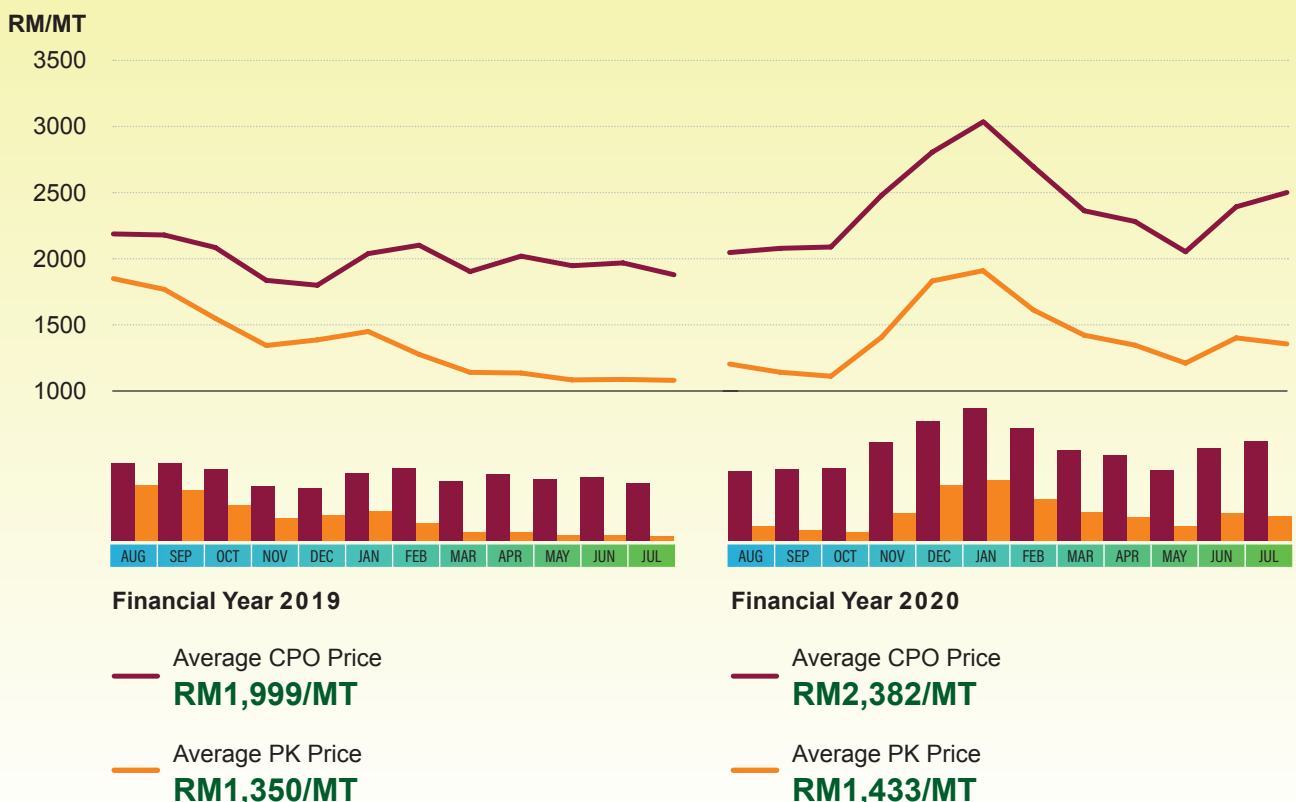
Revenue contribution from the oil palm plantation segment expanded from 32% to 39% of the total revenue of the Group for the financial year ended 31 July 2020 (“FY2020”). The Group has achieved commendable yield improvement in the year, attributed to the remarkable FFB yield from our various estates which consistently surpassed the average yield in the respective regions in Sarawak. Sales volume of FFB grew by 16% from 268,377 metric tonne (“MT”) to 310,422 MT in the year.

In addition, the strengthening of average crude palm oil (“CPO”) price of 19% from RM1,999 per MT in FY2019 to RM2,382 per MT in FY2020, has boosted the revenue and profit contribution of our oil palm plantation segment. Earnings before interest, taxation, depreciation and amortization (“EBITDA”) contributed by the segment grew fourfold from RM11.3 million to RM46.1 million in FY2020.

FRESH FRUIT BUNCHES (MT)



CPO PRICE AND PK PRICE TREND



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D) BY GROUP MANAGING DIRECTOR

TIMBER SEGMENT

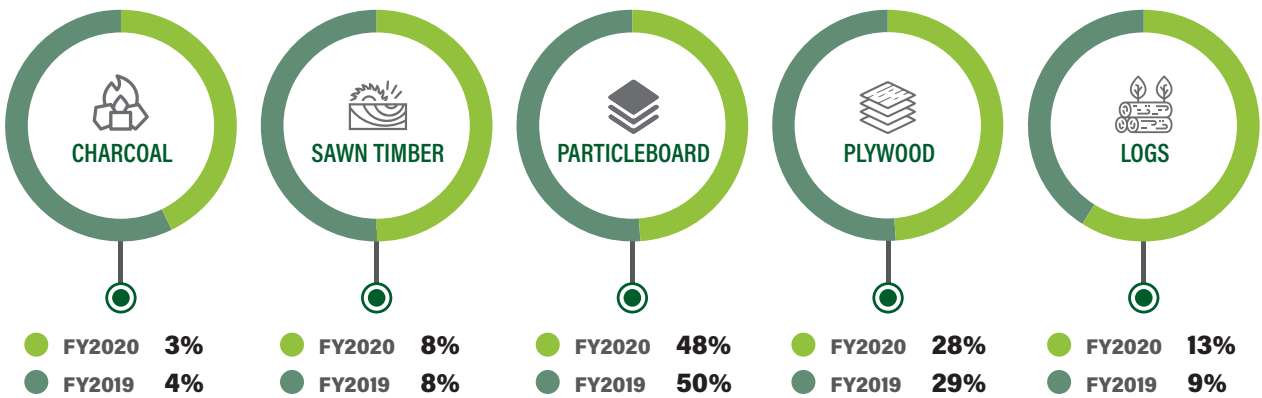
Our timber segment comprises integrated operations spanning across upstream logging operation, reforestation and downstream manufacturing. Logging operations and reforestation are located in Sibul, Bintulu and Kapit regions. Whereas the downstream manufacturing hubs are located in Sibul, Bintulu and Tanjung Manis, Sarawak. Our downstream operations manufacture mainly plywood, particleboard, sawn timber and charcoal.

Other than local consumption, our logs and timber products are exported to more than 20 countries over the world. The main export market for our logs remains predominantly India. Key export markets for our timber products are South Korea, Yemen, Japan and Indonesia. We continue to develop

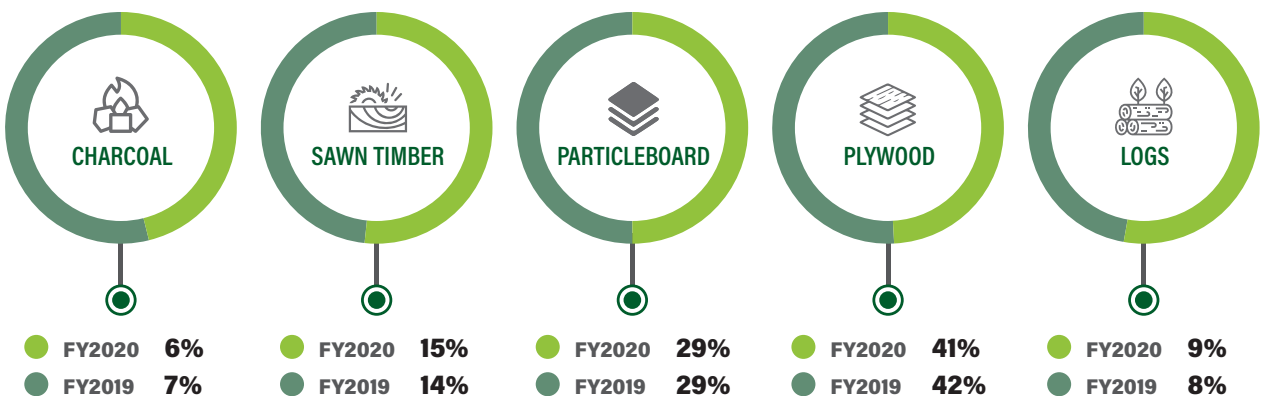


product differentiation, expand market share in niche markets and penetrate new markets globally for our value-added products.

EXPORT VOLUME IN %



EXPORT VALUE IN %



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D) BY GROUP MANAGING DIRECTOR

Logging

Log sales contributed about 15% of the total revenue of the Group. The Group is pleased to notify that we have achieved Malaysia Timber Certification Scheme – Program for the Endorsement of Forest Certification Schemes (“MTCS-PEFC”) Forest Management Certification (“FMC”) for Mujong-Melinau Forest Management Unit on 24 August 2020. Our Group has made good progress towards obtaining FMC for our other timber operations. The impending certification will enhance the sustainability of our forest and competitiveness of our timber products.

Downstream Manufacturing of Timber Products

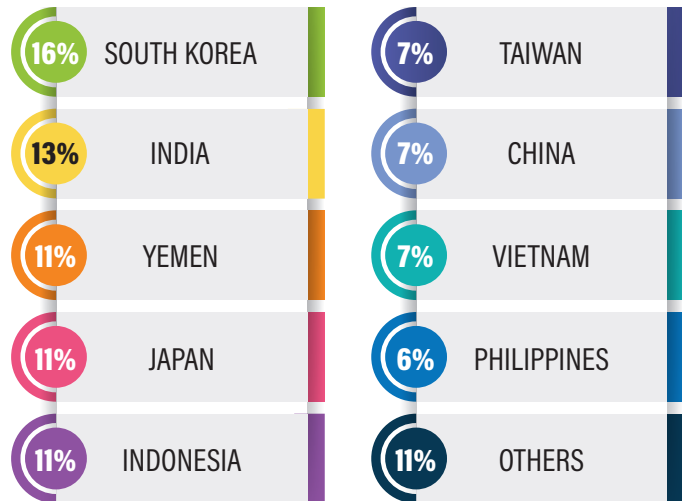
The revenue contribution from the timber products has contracted during the year in review. Plywood and particleboard accounted for 14% and 12% respectively of the total Group revenue in FY2020. Export market share of the two timber products maintained at about 92% and 79% respectively of the product’s total sales volume.

Reforestation

Reforestation remains an integral part of the Group’s logging operations in ensuring the sustainable supply of raw material for downstream manufacturing in the long run. The Group continues to monitor the planted tree growth through research and development in order to achieve optimum survival and growth rates of planted tree species with marketable value.

The Group has advanced on its Plant For The Future project. We have intensified our collaboration efforts with Sarawak Timber Industry Development Corporation on the research and development of the invaluable potential of bamboo, the 21st Century “Green Steel”, as a new source of eco-friendly and sustainable raw material. The collaboration manifests the Group’s commitment in promoting green and ecological based products.

TIMBER AND TIMBER PRODUCTS KEY EXPORT MARKETS



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D) BY GROUP MANAGING DIRECTOR



FINANCIAL REVIEW

	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Revenue	554,603	492,636	322,163	314,569	329,946
EBITDA	79,259	67,446	49,193	32,720	54,154
Profit / (Loss) Before Tax	(31,739)	4,438	(9,449)	(28,313)	(10,784)
(Loss) After Tax	(32,871)	(17,402)	(21,086)	(35,840)	(25,635)
Equity Attributable to Equity Holders	648,869	627,547	598,366	555,825	535,779
Total Assets	1,277,335	1,318,132	1,318,180	1,466,114	1,419,329
Net Assets Per Share (RM)	3.45	3.35	3.20	2.98	2.87

The Group registered revenue of RM329.9 million in FY2020, a 5% growth as compared to RM314.6 million reported in the previous year. Timber and oil palm plantation segments accounted for 59% and 39% respectively of the Group's revenue. The Group reported better performance by recording lower loss before tax of RM10.8 million which comprised mainly provision of impairment loss in timber segment. Loss after tax was reduced to RM25.6 million. The financial performance was attributed to the followings:

Oil Palm Segment

- Year-on-year revenue increased by RM27.4 million, a growth of 27%. Performance improved by recording profit before tax of RM24.8 million, a turnaround from loss before tax of RM7.0 million in the preceding year.
- The significant improvement was backed by uptrend in CPO and FFB average selling prices by 19% and 21% respectively. This was coupled with the notable 16% increase of FFB sales volume resulting from improved yield due to operational efficiency and more matured palm trees.

Timber Segment

- In tandem with general and consumer market sentiment, the decrease in annual revenue was mainly due to lower average selling price of logs and plywood in line with weaker market demand arising from the Covid-19 global pandemic.
- Segment performance before any impairment indeed improved by 31% as compared to preceding year. Nevertheless, the Group was prudent in making provision for impairment on financial assets and property, plant and equipment amounting to RM11.5 million during the year.



FINANCIAL POSITION

Property, plant and equipment ("PPE")

PPE stood at RM1.0 billion at the close of financial year-end, with net increase of RM0.9 million. This was mainly attributed to PPE addition of RM62.0 million, which was mainly offset by depreciation charged for the year of RM50.3 million and disposals and write-off of RM7.5 million and impairment of RM3.3 million.

Biological assets

Biological assets of the reforestation and the planted trees are classified as non-current assets while the agricultural produce such as FFB is classified as current assets at fair value, in line with the requirements of MFRS 141 and 116. The net increase in biological assets of RM18.8 million in FY2020 was mainly due to fair value gain of RM12.7 million as well as addition of RM6.1 million during the year.

Inventories

Inventories as at 31 July 2020 were valued at RM 94.9 million, a decrease by RM24.2 million as compared to FY2019. This was mainly attributed to the decrease of timber products and work-in-progress towards the financial year-end.

Trade and other receivables & Trade and other payables

The decrease of RM21.8 million in trade and other receivables was mainly contributed by effective debt management. Meanwhile, the decrease of 18.2 million in trade and other payables was attributed to the management efforts in managing the Group's liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D) BY GROUP MANAGING DIRECTOR

Working capital and liquidity

During the year, the Group generated net cash flows from operating activities amounting to RM46.8 million, a 40% increase as compared to RM33.4 million in FY2019. The cash inflows were used mainly to finance the plantation expenditure in the oil palm estates and repay borrowings.

Capital commitment

The approved and contracted capital expenditure of RM1.7 million is in relation to the balance of the construction costs of the worker quarters in the oil palm estates and purchase of machinery.

DIVIDEND

The Board of Directors does not recommend any dividend in respect of the financial year ended 31 July 2020.

ANTICIPATED OR KNOWN RISK

The Group has in place a risk management framework to mitigate risks. Risk management system is embedded in the Group's day-to-day operations to identify, evaluate, monitor and manage material risks. The Group has constantly reviewed risks which could impact our operational and financial performance in the pursuit of the Group's business goal.

Labor shortage remains one of the primary operating risks for the oil palm industry. Due to the outbreak of the Covid-19 pandemic, the freeze on the intake of new workers and the difficulty in recruiting such workers has worsened the labor shortage issue. However, the Group has implemented the strategy on workers retention program in order to retain the estate workers. Other than that, the Group has adopted the mechanization program which can improve labor productivity and reduce the quantum of labor needed.

Regulatory risks include but not limited to changes in government policies and regulations on labor, environment, safety and health. Any changes in these policies and regulations especially in responding to the outbreak of Covid-19 pandemic may have impact to the Group operation costs. The Group is committed to embracing proactive measures to mitigate the impacts from these risks.

FORWARD LOOKING

Our oil palm segment is expected to register higher profit margin on the back of continuous growth in our FFB production and uptrend in CPO price. We are confident that our FFB production can be further boosted through operational efficiencies alongside increasing areas of matured palm trees in prime age category. CPO price is expected to be on the uptrend in tandem with recovery in market demand as more countries have gradually opened up their economies. We expect strong demand from China and India as they continue to replenish their palm oil inventories in line with re-opening of businesses and swift recovery in China's economy with positive GDP growth.

The gradual market recovery has shed some light on the outlook of our timber segment. A decent optimism can be expected on the recovery in consumer consumption as major nations like US, China, Russia and UK are expediting the commercialization trials of their Covid-19 vaccine. Our good progress in obtaining FMC for our timber operations will enhance the sustainability of the business in the long run.

The Group remains steadfast in constantly improving and streamlining its operations including cost rationalization initiatives despite the uncertainty and adverse global environment arising from the on-going Covid-19 pandemic. Overall, the Group is confident in managing the challenges underpinned by its commitment to review and improve the effectiveness of its strategic plans in order to deliver positive returns.

