



THREE-A RESOURCES BERHAD

481559-M

REPLY TO QUERIES FROM MINORITY SHAREHOLDER WATCHDOG GROUP 16TH ANNUAL GENERAL MEETING HELD ON 25 JUNE 2018

Strategy and Financial Matters

1. In the Management Discussion & Analysis (“MD&A”) on page 12 of the Annual Report, the Company has stated that the acquisition of 2 parcels of land in the vicinity of 3A’s existing location of factories for a total of RM17.0 million was the largest item of capital expenditure in FY 2017.

Please share on the following:

- i. The strategic plans for the acquisition of the land;
- ii. The expected capital expenditure for the development of the land and construction of the plant; and
- iii. The potential growth in the manufacturing capacity upon completion of the new plant.

Response

- i. The Group intends to construct production facilities, warehousing facilities, research and development facilities and office building on the two pieces of land acquired that shall take place over the next 2 to 3 years;
 - ii. The expected capital expenditure for the development of the land and the construction of the plant is in the range of RM45 million to RM50 million;
 - iii. The Group plans to expand the production capacity of HVP Liquid and Caramel Powder within 2 to 3 years. The expanded capacity of HVP Liquid is estimated to increase by 50%; whereas the 2nd Caramel Powder Plant is planning to adopt a much advanced technology with computerised processing control equipment which expected to have 3 to 4-fold increase in its existing capacity.
2. As stated under MD&A on page 12 of the Annual Report, the Company has a plan for more plant automation to reduce reliance on foreign labor.
 - i. What percentage of the manufacturing system is currently automated and what is the targeted percentage of automation?
 - ii. What would be the expected savings upon the implementation of automation?

Response

- i. Most of our new plants launched in recent years and those to be launched are designed with significant amount of automation in operation especially our Maltodextrin Plants. We are looking to material handling automation and automated warehouse system to improve processes and to streamline shipping operations.
- ii. The expected saving from the automation varies according to the completion of new plants and the successful implementation in the other existing operations. Apart from financial saving, it would help to reduce the dependency on foreign workers. The main reasons for the joint venture (JV) business in China to incur losses are the targeted customers in China are taking longer than we expected to evaluate and assess our products before purchase.

3. We refer to Note 22, page 87 of the Annual Report whereat it is stated that the Group recorded realized and unrealised foreign exchange loss of RM1.5 million and RM2.4 million respectively in year FYE 2017 (FYE 2016:NI). Please explain the reasons for the realised and unrealised foreign exchange losses for FYE 2017. How will the Group manage the foreign exchange risk going forward?

Response

The Group generated sales from overseas and the realised and unrealised losses for FYE 2017 mainly arose from merely accounting for such foreign currency exchange translation on settlements and as at reporting date respectively in our books. Simultaneously, we do have import of raw materials in the foreign currency that exceeded our export amount. Therefore, the Group has a natural hedge position against the foreign currency exchange risk of our export sales. The balance foreign currency of net import is converted to our local currency on settlement and usually becomes our buffer stock for future pricing to our local customers.

Corporate Governance Matters

1. There were no disclosure on the remuneration of directors of the Company for the financial year on a named basis. Under paragraph (11) Part A of Appendix 9C of Main Market Listing Requirements, listed companies are required to disclose the remuneration of directors for the financial year on a named basis. Please take note of this.

Response

The Company will take note of this disclosure requirements.

2. Practice 1.3 of Malaysian Code on Corporate Governance (“MCCG”)

The Managing Director is also holding the position of Deputy Chairman. In this regard, please explain the role and responsibility of the Deputy Chairman of the Company. Please explain whether this is in contradiction to the Company's statement in its CG Report that it has applied Practice 1.3 of the MCCG, i.e. the positions of Chairman and CEO are held by different individuals.

Response

The Chairman of the Board is Dato' Mohd Nor Bin Abdul Wahid, who is an Independent Non-Executive Director whereas the Managing Director is Mr Fang Chew Ham, who is a Non-Independent Executive Director of the Group. The Board is led by an independent chair and the role of the Chairman is clearly distinguished from the role of the management.

3. Practice 12.3 of MCCG

The Company in its Corporate Governance Report (“CG Report”) has stated that it has applied Practice 12.3 of MCCG which refers to facilitating or providing platform for shareholders to vote remotely without being physical present at the Company's AGM. Based on the Company's explanation given on the application of Practice 12.3, we wish to highlight that the Company has not correctly applied the Practice. Please take note of this.

Response

The Company will take note of the comment.