

---

## MALAYSIA REGULATORY OVERVIEW

### Upstream Operations and Regulations

The main statutes which govern matters related to forestry in Sarawak, Malaysia are set out below:–

- the **Forests Ordinance, Chapter 126 (1958 Edition)** (“**Forests Ordinance**”) is the most important piece of legislation that regulates the protection and management of forests in Sarawak, the taking of forest produce in Sarawak and for the construction and the operation of sawmills and plants for the manufacture of veneer, plywood, moldings or any other products made from timber. The Forests Ordinance authorizes the Director of Forests in consultation with the Minister of Planning and Resource Management (“Minister”) to fix or impose any limit or volume of timber to be produced, taken, felled or removed from any licensed area and alternatively cancel or vary those limits. Royalty on forest produce is payable to the state government and are based on timber species and volume.
- the **Forests (Planted Forests) Rules, 1997** complements the Forests Ordinance as it provides for the establishment of planted forests and harvesting of trees, the registration, control and administration of any nurseries and research facilities established for or to facilitate tree planting or cultivation of any species of trees in planted forests. Licensee licensed hereunder can commence the planting of trees upon the submission of an environmental impact assessment report of the planted forest to the Natural Resources and Environment Board as required under the Natural Resources and Environment (Prescribed Activities) Order 1994 and an approval thereof. Any license issued hereunder is not transferable unless approved by the Minister.
- the **Natural Resources and Environment Ordinance, Chapter 84 (1958 Edition)** provides for the establishment, composition, powers and functions of the Natural Resources and Environment Board and the conservation of natural resources. The Natural Resources and Environment Board has the functions and powers, amongst others, to provide rules, guidelines and directions for the protection and enhancement of the environment in matters relating to, inter alia, land use, development and protection of sources of water supply and invalid waters, extraction and removal of forest produce, mining, planning and development of agricultural estates and generally to take or undertake such measures or steps as may be necessary to safeguard the quality of the environment. The Natural Resources and Environment Board may require submission of an environmental impact assessment report from any person undertaking activities like logging operations in forest areas which have previously been logged or in respect whereof coupes have previously been declared to have been closed by the Director of Forests under the provisions of the Forests Ordinance.
- the **Land Code (Chapter 81) (1958 Edition)** is the most important legislation applicable to land matters in Sarawak including provisions on land classification, alienation of lands, registration of land titles and dealings in respect of lands in Sarawak. The Land Code also provides that native customary rights may be permitted upon restricted area of land in Sarawak in accordance with native customary law/rights of the communities by various methods including the felling of primary forest and the occupation of the land, the occupation or cultivation of land or the use of land for a burial ground or shrine. Native customary rights may be extinguished by a direction issued by the Minister

but compensation and/or other land shall be paid or made available to any person who can establish his claims to such rights in accordance with certain provisions of the Land Code. Under the Land Code, the Minister may also declare any area of state land to be “native communal reserve” for the use of any community living.

- the **Wild Life Protection Ordinance, 1998 (Chapter 26)** was enacted to provide better provisions for the protection of wild life, the establishment and management of wild life sanctuaries and all matters ancillary thereto. In an effort to ensure the long term conservation and protection of wild life in Sarawak, the Director of Forests has issued circulars to forest timber licensees/logging operators requiring strict adherence to various requirements including the prohibition on the employees of the timber companies from hunting in the licensed areas and using company vehicles for hunting or carrying meat of wild animals.

### **Downstream operations and regulations**

There are various licenses and certificates required for the manufacture of wood products which are regulated by various statutes and issued by the relevant authorities. The main licenses and/or certificates are regulated by the following statutes:

- the **Industrial Co-ordination Act 1975 (Act 156)** regulates “manufacturing activities” – defined as making, altering, blending, ornamenting, finishing or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade. Manufacturing activities in Malaysia can only be engaged upon issuance of a license hereunder and the licensee can only manufacture products that are specified in the license and may be subject to various conditions, including shareholding equity conditions. In a corporate restructuring involving companies with such licenses, or any share issuance involving a change in the effective interest in those companies, the approval of MITI will be required. A license may also be revoked at the discretion of MITI if the manufacturer to whom a license is issued has not complied with any condition imposed in the license. Various principal manufacturing licenses held by certain subsidiaries of our Group, including, Samling Plywood (Miri) Sdn Bhd., Samling Plywood (Baramas) Sdn, Bhd. and Samling Flooring Products Sdn. Bhd., have shareholding equity conditions attached, which may vary from license to license, such as a condition requiring that an effective shareholding interest ranging from 50% to 70% of the issued share capital of the licensed company shall be held by Malaysians, including an effective shareholding interest of up to at least 30% which must be held by Bumiputera interests. See the fifth column to the table under the sub-section headed “Principal Licenses/Permits/Certificates” for details.
- the **Factories and Machinery Act 1967 (Act 139) and Factories and Machinery (Notification, Certificate of Fitness and Inspection) Regulations 1970**, deal with regulations in relation to certification, inspection and notification of machinery and factories. Machinery shall only be installed with the written approval of the Inspector of Factories and Machinery and shall be used upon issuance of a certificate of fitness.

- the **Business, Professions and Trades Licensing Ordinance (Chapter 33)** provides for the licensing and taxation of trades and other gainful occupations. It is an offence in Sarawak for any person to carry on any business which is not covered under a trading license.
- the **Environmental Quality Act 1974 (Act 127)** sets out the prevention, abatement, control of pollution and enhancement of the environment and for the purposes connected therewith. The Minister in charged with the responsibility for environmental protection, may by regulations specify the acceptable conditions of emission, discharge or deposit of environmentally hazardous substances, pollutants or wastes or the emission of noise into any area, segment or element of the environment. Unless a license is given, no person shall emit or discharge any environmentally hazardous substances, pollutants or wastes into the atmosphere or any noise greater in volume, intensity or quality. It is an offence if any person contravenes the aforesaid and shall be liable to a fine not exceeding RM100,000 or to imprisonment for a period not exceeding five years or to both and to a further fine not exceeding RM1,000 a day for every day that the offence is continued after a notice by the Director General requiring him to cease the act specified therein has been served upon him.

### *Other Regulatory Bodies in Timber/Forestry Industry in Sarawak*

#### **Forest Department of Sarawak**

The Forest Department of Sarawak (or the Sarawak Forest Department) is principally responsible for (i) advising the Sarawak state government on all matters pertaining to forestry; (ii) the collection of revenue due to the Sarawak state government from timber royalty and other fees for environmental protection and conservation of endangered wildlife species; (iii) the control of harvest from the forest estate based on the principle of sustainable forest management; and (iv) the enforcement of the Forests Ordinance 1958 (Chapter 126), the National Parks and Nature Ordinance 1998, the Wildlife Protection Ordinance 1998 and the control of all forestry operations under the terms of a forest license.

#### **Sarawak Forestry Corporation**

The Sarawak Forestry Corporation is a body corporate established under the Sarawak Forestry Corporation Ordinance 1995 (Chapter 17) wholly-owned by the Sarawak state government. The Sarawak Forestry Corporation acts as an agent of the Sarawak state government, among others, (i) to provide services in collecting and enforcing payment of timber royalty; (ii) to carry out government plans and policies for forestry operator; (iii) to undertake research on all aspects of forestry; and (iv) to enforce compliance by all licensees, contractors, sub-contractors, operators and those involved in the logging and timber processing industry of all laws and regulations governing their operations, and the conditions, directives, plans and schemes contained or imposed on any permit or license issued to them under the Forests Ordinance.

## **Sarawak Timber Industry Development Corporation (STIDC)**

The Sarawak Timber Industry Development Corporation (STIDC), also known as Perbadanan Perusahaan Kemajuan Kayu Sarawak or “PUSAKA”, was established in June 1973 under the Sarawak Timber Industry Development Corporation Ordinance 1973 and it controls and co-ordinates the manufacturing standards and trade practices of Sarawak timber industries and makes recommendations to the Sarawak state government as to the methods, measures and policies to be adopted to facilitate the improvement of the existing timber industry in Sarawak, Malaysia.

Under the Sarawak Timber Industry (Registration) Regulations, 1999, no person shall be engaged in or associated with the manufacture of timber or the sale, distribution or marketing of timber unless he is registered under the regulations.

## **Import/Export Restrictions**

### ***Forests Ordinance***

The Director of Forests may by rule under section 95 prohibit the export from Sarawak of any timber, or of timber of a particular class or description or destination, unless such timber is accompanied by a certificate of inspection in the prescribed form.

Subject to any particular condition or limitation or reservation imposed in the notice under the Forest Ordinance, no holder of a license or permit to which the notice apply shall, among others, export or caused to be exported or removed from Sarawak any timber forming or constituting part of the reservation quota.

No timber shall be loaded or transmitted onto any vessel for export or removal from Sarawak until a certificate (“Export Clearance Certificate”) has been issued by the Director of Forests or any person specially authorized by him certifying that the timber does not form part of the reservation quota. The master of every vessel carrying or towing timber for export or removal from Sarawak shall not leave or attempt to leave any port until and unless he has in his possession an Export Clearance Certificate provided to him by the person exporting or removing the timber from Sarawak. An Export Clearance Certificate shall not be issued unless the Director of Forests or any person duly authorized by him is satisfied that all royalties, premia, cess and other dues chargeable on any timber to be exported or removed from Sarawak have been duly paid, such timber carried or towed by the vessel have been taken under license or permit as indicated in the Forest Produce Removal Pass and other documents produced by the master of the vessel in support of such claim and The master of the vessel carrying or towing such timber has not contravened any of the requirements of Part VII of the Sarawak Rivers (Traffic) Regulations, 1993.

### ***Customs (Prohibition of Import) Rules 1998***

The importation of logs, wood in the rough, whether or not stripped of its bark or merely roughed down, wood roughly squared or half squared but not further manufactured and Large Scantlings and Squares (“LSS”) having a cross section exceeding 60 square inches that originates or manufactured wholly or mainly in, or consigned from Indonesia is absolutely prohibited.

The importation of logs, wood in the rough whether or not stripped of its bark or merely roughed down, wood roughly squared or half-squared but not further manufactured and LSS having a cross section exceeding 60 square inches excluding Ramin timber from all other countries (except Indonesia) is prohibited unless the import is accompanied by an import permit issued by or on behalf of the Sarawak Timber Industry Development Corporation (in relation to Sarawak), or the Malaysian Timber Industry Board (in relation to other states of Malaysia), as the case may be.

The importation of logs, wood in the rough whether or not stripped of its bark or merely roughed down, wood roughly squared or half-squared but not further manufactured and LSS, of Ramin timber from all other countries (except Indonesia) is prohibited unless the import is accompanied by an import permit issued by or on behalf of the Sarawak Timber Industry Development Corporation (in relation to Sarawak), or the Malaysian Timber Industry Board (in relation to other states of Malaysia), as the case may be, and an import permit required under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (“CITES”) issued by or on behalf of the Sarawak Timber Industry Development Corporation (in relation to Sarawak), or the Malaysian Timber Industry Board (in relation to other states of Malaysia), as the case may be.

The importation of sawn timber, parts and derivatives of Ramin timber from all countries are prohibited unless the import is accompanied by an import permit issued by or on behalf of the Sarawak Timber Industry Development Corporation (in relation to Sarawak), or the Malaysian Timber Industry Board (in relation to other states of Malaysia), as the case may be, and an import permit required under CITES issued by or on behalf of the Sarawak Timber Industry Development Corporation (in relation to Sarawak), or the Malaysian Timber Industry Board (in relation to other states of Malaysia), as the case may be.

The importation of poles and piles of Bakau (*Rhizophora spp*) from all countries are prohibited unless the import is accompanied by an import permit issued by or on behalf of the Sarawak Timber Industry Development Corporation (in relation to Sarawak), or the Malaysian Timber Industry Board (in relation to other states of Malaysia), as the case may be.

### ***Customs (Prohibition of Exports) Order 1998***

The exportation of logs, sawn timber, moulding, plywoods, veneer chips or particle boards, fiberboards, wood chips and ground wood to all destinations is prohibited, except under an Export Licence granted by the Director General of Customs or granted by the proper officer of customs appointed by the Director General of Customs to act on his behalf at the Sarawak Timber Industry Development Corporation (in relation to Sarawak), or the Malaysian Timber Industry Board (in relation to other states of Malaysia), as the case may be, and subject to such conditions as may be specified in the license.

**Principal Licenses/Permits/Certificates**

The principal licenses, permits or certificates required to be obtained by our Group in order to carry out our timber business are set out below:

<b>Name of company within our Group</b>	<b>Certificate of Registration</b> <i>(required pursuant to Forests Ordinance)</i>	<b>Forest Timber License</b> <i>(required pursuant to Forests Ordinance)</i>	<b>License of Planted Forest</b> <i>(required pursuant to Forests Ordinance and Forests (Planted Forests) Rules 1997)</i>	<b>Manufacturing License</b> <i>(required pursuant to Industrial Co-ordination Act 1975)</i>
KTN Timor Sdn. Bhd.	No. R0140/91 Issued in January 1993 Expiring in December 2007	No. T/0280 Issued in June 1984 Expiring in June 2009		
Merawa Sdn. Bhd.	No. R0150/94 Issued in December 1994 Expiring in November 2007	No. T/0390 Issued in March 1992 Expiring in March 2012		
Ravenscourt Sdn. Bhd.	No. R0136/91 Issued in January 1993 Expiring in December 2007	No. T/0294 Issued in January 1985 Expiring in January 2015		
Samling Wood Industries Sdn. Bhd.	No. R0009/94 Issued in March 1994 Expiring in February 2008	No. T/3284 Issued in May 1993 Expiring in May 2013		
S.I.F. Management Sdn. Bhd.	No. R0046/2001 Issued in July 2001 Expiring in July 2007	No. T/9082 Issued in April 2001 Expiring in April 2011		No. A015197 (for veneer manufacturing) Issued in September 2005 No expiry date
Syarikat Reloh Sdn. Bhd.	No. R0204/92 Issued in May 1993 Expiring in September 2007	No. T/3112 Issued in June 1984 Expiring in June 2007		
Sertama Sdn. Bhd.	No. R0134/91 Issued in January 1993 Expiring in December 2007	No. T/3173 Issued in April 1987 Expiring in April 2012		
Majulaba Sdn. Bhd.	No. R0165/2005 Issued in November 2005 Expiring in November 2007	No. T/9115 (previously under the Forest Timber Licence Nos. T/0298 and T/0299) Issued in November 2005 Expiring in November 2015		
Samling Plywood (Lawas) Sdn. Bhd.	(1) No. R0012/94 Issued in March 1994 Expiring in February 2008  (2) No. R0013/94 Issued in March 1994 Expiring in February 2008	(1) No. T/0404 Issued in May 1995 Expiring in May 2013  (2) No. T/0405 Issued in May 1993 Expiring in May 2013		
Samling Reforestation (Bintulu) Sdn. Bhd.	(1) No. R0082/2000 Issued in October 2000 Expiring in October 2007  (2) No. R0083/2000 Issued in October 2000 Expiring in October 2007  (3) No. R0108/99 Issued in November 1999 Expiring in November 2007  (4) No. R0105/99 Issued in November 1999 Expiring in November 2007  (5) No. R0107/99 Issued in November 1999 Expiring in November 2007		(1) No. LPF/0020 Issued in August 2000 Expiring in August 2060  (2) No. LPF/0021 Issued in August 2000 Expiring in August 2060  (3) No. LPF/0008 Issued in December 1998 Expiring in December 2058  (4) No. LPF/0005 Issued in December 1998 Expiring in December 2058  (5) No. LPF/0007 Issued in December 1998 Expiring in December 2058	

## REGULATION OF OUR INDUSTRY

Name of company within our Group	Certificate of Registration <i>(required pursuant to Forests Ordinance)</i>	Forest Timber License <i>(required pursuant to Forests Ordinance)</i>	License of Planted Forest <i>(required pursuant to Forests Ordinance and Forests (Planted Forests) Rules 1997)</i>	Manufacturing License <i>(required pursuant to Industrial Co-ordination Act 1975)</i>
Syarikat Samling Timber Sdn. Bhd.	No. R0084/2003 Issued in August 2003 Expiring in August 2007		No. LPF/0014 Issued in January 1999 Expiring in January 2059	
Samling Plywood (Miri) Sdn. Bhd.	No. R0014/94 Issued in March 1994 Expiring in February 2008	No. T/0413 Issued in September 1993 Expiring in August 2018		(1) No. A007396 (for plywood manufacturing) Issued in May 1993 No expiry date  (2) No. A007396 (for veneer manufacturing) <sup>(a)</sup> Issued in May 2005 No expiry date
Samling Plywood (Baramas) Sdn. Bhd.	(1) No. R0011/94 Issued in December 1994 Expiring in February 2008  (2) No. R0010/94 Issued in March 1994 Expiring in February 2008	(1) T/0412 Issued in September 1993 Expiring in August 2013  (2) No. T/0411 Issued in September 1993 Expiring in August 2013		(1) No. A007508 (for plywood manufacturing) <sup>(a)</sup> Issued in April 1991 No expiry date  (2) No. A015191 (for veneer manufacturing) <sup>(c)</sup> Issued in September 2005 No expiry date
Samling Plywood (Bintulu) Sdn. Bhd.	(1) No. R0015/94 Issued in December 1994 Expiring in February 2008  (2) No. R0149/94 Issued in November 1994 Expiring in November 2007	(1) No. T/3283 Issued in May 1993 Expiring in May 2008  (2) No. T/3282 Issued in May 1993 Expiring in May 2008		(1) No. A006707 (for plywood manufacturing) Issued in February 1991 No expiry date  (2) No. A006707 (for veneer manufacturing) Issued in March 1998 No expiry date  (3) No. A013395 (for veneer manufacturing) Issued in April 2003 No expiry date
Samling Housing Products Sdn. Bhd.				(1) No. A013513 (for manufacturing of wooden furniture and its parts) Issued in May 2003 No expiry date  (2) No. A010509 (for manufacturing of medium density fiber mouldings and decorative medium density board/plywood) Issued in December 2000 No expiry date  (3) No. A010509 (for manufacturing of wooden door, wooden door panels, wooden furniture and its parts) Issued in October 1996 No expiry date

## REGULATION OF OUR INDUSTRY

Name of company within our Group	Certificate of Registration <i>(required pursuant to Forests Ordinance)</i>	Forest Timber License <i>(required pursuant to Forests Ordinance)</i>	License of Planted Forest <i>(required pursuant to Forests Ordinance and Forests (Planted Forests) Rules 1997)</i>	Manufacturing License <i>(required pursuant to Industrial Co-ordination Act 1975)</i>
Samling Flooring Products Sdn. Bhd.				<p>(1) No. A010076 (for the manufacturing of laminated flooring boards and panels)<sup>(b)</sup> Issued in May 2000 No expiry date</p> <p>(2) No. A014468 (for veneer manufacturing)<sup>(b)</sup> Issued in May 2004 No expiry date</p> <p>(3) No. A013776 (for veneer manufacturing)<sup>(b)</sup> Issued in December 2003 No expiry date</p> <p>(4) No. A014372 (for manufacturing of veneer, sawn timber and woodchip) Issued in April 2004 No expiry date</p> <p>(5) No. A010076 (for manufacturing of 3-ply parquet)<sup>(b)</sup> Issued in January 1996 No expiry date</p> <p>(6) No. A015463 (for manufacturing of plywood and veneer in Sibul)<sup>(d)</sup> Issued in March 2006 No expiry date</p>
Samling Chipboard Sdn. Bhd.				<p>No. A014467 (for particle board manufacturing) Issued in May 2004 No expiry date</p>
Sorvino Holdings Sdn. Bhd.				<p>No. A012378 (for manufacturing of re-conditioned heavy machineries — tractors, motorgraders, truck with gross vehicle weight exceeding 38 tonnes, excavators and wheel loaders) Issued in October 2000 No expiry date</p>
Grand Paragon Sdn. Bhd.				<p>(1) No. A013740 (for manufacturing of wooden solid door, flush doors, moulded doors and wooden solid windows) Issued in January 2003 No expiry date</p> <p>(2) No. A013739 (for manufacturing of wooden door and window components) Issued in January 2003 No expiry date</p>



- (a) At least 50% of its effective shareholding must be held by Malaysian citizens including at least 10% to be reserved for Bumiputera shareholders.
- (b) At least 60% of its effective shareholding must be held by Malaysian citizens including at least 10% to be reserved for Bumiputera shareholders.
- (c) At least 60% of its effective shareholding must be held by Malaysian citizens including at least 30% to be reserved for Bumiputera shareholders. Upon completion of the Global Offering, we shall be in non-compliance with such license requirement. We are seeking to rectify the license condition to bring it in line with the license condition previously issued for this company at the time of the Reorganization. Such non-compliance may result in the relevant manufacturing licence to be revoked at the discretion of MITI. The licence relate to the operation of one of our veneer factories in Layun, Sarawak, which contributed approximately 0.7% and 2.5% of our revenue for the financial year ended June 30, 2006 and the three months ended September 30, 2006 respectively. In view of the insignificant contribution of this factory to our revenue, our Directors are of the view that there will not be any material adverse effect on our Group's business as a whole in the event that the operations at this factory have to be suspended.
- (d) At least 70% of its effective shareholding must be held by Malaysian citizens.

### **Foreign Investment in Malaysia under the FIC Guidelines**

Certain acquisitions of shares and/or assets in Malaysia by a foreign interest are regulated and monitored by the FIC. The FIC Guidelines for the regulation of acquisition of assets, mergers and takeovers of businesses and companies in Malaysia are policy guidelines of a non-statutory nature and do not have the force of law. The FIC Guidelines provide that a proposed acquisition of shares and/or assets shall result directly or indirectly in a more balanced Malaysian participation in ownership and control, which should lead directly or indirectly to net economic benefits being derived in relation to certain matters and should not have adverse consequences in terms of national policies in certain areas.

The acquisitions of asset by any foreign interest as set out below require the FIC's approval:

1. Any acquisition of property by foreign interest. Such foreign interest is only allowed to acquire property valued at more than RM150,000 per unit by a foreign interest, with no limit on the number of property acquired.
2. Acquisition of a residential unit valued at less than RM150,000, but more than RM60,000 by a local manufacturing company owned by foreign interest for residential purposes for the benefit of the company's employees.
3. Acquisition of commercial unit valued at less than RM10 million for use by the foreign interest need not be undertaken via a local company.
4. Acquisition of agricultural land valued at more than RM250,000 or at least 5 acres in area, whichever is higher, subject to the conditions for acquisition, for agricultural or agro-tourism purposes.
5. Acquisition of (i) industrial property without any price limit; (ii) one or more contiguous properties with a total value of RM10 million and above; (iii) an entire building or property development project, irrespective of its value; (iv) land or land with building for redevelopment on a commercial basis; or (v) commercial unit valued at more than RM10 million, and the acquired property must be registered under a locally incorporated company, subject to the conditions for acquisition.

6. Acquisition through public auction valued at more than RM150,000 per unit subject to the conditions of the acquisition.
7. Exempted from the imposition of equity condition, an acquisition of industrial property by foreign interests for its own purpose of manufacturing operation.

Nevertheless, an acquisition of industrial property by a manufacturing company licenced by MITI for its own purpose of manufacturing is exempted from the requirement of FIC's approval.

Foreign interest is not permitted to acquire all properties, among others, under the category of low and medium cost and/or reserved to the Bumiputera.

The acquisition of shares by any foreign interest as set out below requires the FIC's approval:

1. Any acquisition of interest in a local company/business which is RM10 million or more in value by foreign interests;
2. Any acquisition of interest of a local company/business by any means, which results in the transfer of ownership or control to foreign interests;
3. Any acquisition of interest by:
  - (a) any foreign interest of 15% or more of the voting rights of a local company/business or which results in an increase of voting rights of foreign interests to 15% or more in a local company/business; or
  - (b) any associated or non-associated group of foreign interests, in the aggregate of 30% or more of the voting rights of a local company/business OR which in the aggregate results in an increase of voting rights of foreign interests to 30% or more in a local company/business;

regardless of the value of the transaction with the exception of open market acquisitions on Bursa Malaysia Securities Berhad for short term holdings;

4. Any merger or take-over of a local company/business by foreign interests;
5. Any proposed joint venture involving two or more parties in a local company;
6. Any control of a local company/business through any form of management agreement, technical assistance agreement or other arrangements;
7. Any charging of shares in a local company to any foreign interest where the value of the loan or market value of the shares is RM10 million or more.

For the purpose of FIC Guidelines, "foreign interest" includes foreign individuals, permanent residents, companies incorporated outside Malaysia and local companies 50% voting shares of which are held by foreign individuals or companies.

For the purposes of our Reorganization, we obtained an approval granted by the FIC in relation to our acquisition of certain Malaysian companies (including SST and subsidiaries of Lingui). FIC has required as a condition of such approval that Samling Strategic will remain as the largest single shareholder of our Company, whether directly or indirectly. Other than the above, the FIC approval does not set out any other conditions and we are not subject to any shareholding equity conditions under the FIC approval.

The FIC does not regulate further issuance of shares by our Company outside of Malaysia or the acquisition by our Group of overseas non-Malaysian assets or shares. We are therefore not required to seek approval from the FIC for issuance of Shares or debt securities, or the obtaining of bank loans or other forms of financing, so long as such transactions do not result in Samling Strategic ceasing to be our largest single shareholder. However, any acquisition by our Company or any subsidiary of our Group which falls within the ambit of the FIC Guidelines will require FIC's approval.

## **PRC REGULATORY OVERVIEW**

- **Timber Trading and Processing Licensing Framework**

In the PRC, the PRC Forest Law (Decree [1984] No. 17 of the PRC President) implemented on January 1, 1985 and amended on April 29, 1998 (the "PRC Forest Law") is the basic law governing the forestry/plantation industry. The PRC Forest Law is further interpreted by the Implementation Regulations of the PRC Forest Law (Decree [2000] No. 278 of the State Council) implemented on January 29, 2000 ("Implementation Regulations"). According to the Implementation Regulations of the PRC Forest Law, timber trading and processing in the forest zones must be approved by the forestry bureau at county level or above. For timber trading and processing outside the forest zones, some provinces of the PRC such as Shandong Province implement a licensing system as well, under which panel producers and sellers are required to obtain the Timber Trading and Processing License from forestry bureaus at county level.

- **Wood-based Panels Production Licensing Framework**

According to applicable PRC laws, the production and sale within the PRC of the following kinds of wood-based panels is subject to production permit: veneer, flakeboard, directional flakeboard, medium-density fiberboard, decoration veneer-pasted wood-based panels, velum-oaked facing wood-based panels, cabinetwork panels, solid wood-composite floor, soaked bumf-layered wood floor, bamboo floor, solid wood floor. But, if all of the products are exported, the production is not subject to a production permit. However, if the products are sold within the PRC, a production permit is necessary.

## **Import/Export Restrictions**

There is no import/export restriction specifically implemented over the forestry/plantation industry, save for the export prohibition on unprocessed logs and the export prohibition or restriction on precious trees and relevant products or derivatives of such trees.

## Principal Licenses/Permits/Certificates

Riverside is not required under PRC law to hold any licenses, permits or certificates that are specific to our Group's business as the relevant requirement to obtain license, permit or certificate is only applicable to timber trading and processing within designated forest zones, while such activities of Riverside are conducted outside such forest zones. Foothill holds a Shandong Province Timber Dealing and Processing License pursuant to the Shandong Province Regulations on Administration of Forest Resources promulgated on June 30, 2000, which was issued in April 2006 and will expire in April 2010. As a company incorporated in the PRC, each of Riverside and Foothill holds a business license, expiring in August 2042 and November 2052, respectively, which is subject to annual inspection by the relevant PRC authorities. Since all of the products of Riverside and Foothill are for export, both companies are not required to hold a production permit for wood-based panels.

## NEW ZEALAND REGULATORY OVERVIEW

Until the 1980s, the New Zealand Government was directly involved in forestry production through ownership of over half the country's plantation forests, two large sawmills, administration of forestry encouragement loans, and regulation of log exports. In 1987, the Government decided to sell its planted forests to private companies and its current policy is to ensure that New Zealand forestry is internationally competitive and not dependant on subsidies.

The principal government department concerned with regulating forestry in New Zealand is the MAF. MAF administers most forestry legislation and frequently publishes guidelines on best practice in the industry.

While there is no comprehensive code applicable to silviculture in New Zealand, the forestry industry is affected by a number of statutes, some specific to the industry and some more general in application:

### Specific Statutes

- The *Forests Act 1949* is the most important legislation applicable to forestry. The Act itself principally regulates the felling, milling and export of indigenous timber. The Forests Act also contains provisions on the registration of forestry supply contracts which, although passed, have yet to come into force. Regulations may be passed under the Act to deal with a broader range of topics including the establishment and funding of forests, the branding of forest products, import and export of timber (which is also governed by the Biosecurity Act 1993 and Hazardous Substances and New Organisms Act 1996), and the operation of forests and sawmills. Regulations dealing with forestry loans and grants, state forests and fees are presently in force;
- The *Forestry Encouragement Act 1962* allows MAF to provide loans to encourage forestry. The Act makes provision for "forestry encouragement agreements" with MAF to be registered against the title to the land;

- The *Forest and Rural Fires Act 1977*, together with the *Forest and Rural Fires Regulations 2005*, amendments to the *Fire Service Act 1975* and the *Rural Fire Management Code of Practice* set out a framework for the control and prevention of forest fires. In addition to creating individual offences and obligations on forestry operators amongst other persons, with regard to fires, fire breaks and fire prevention, the Act creates fire control districts and authorities and places restrictions on access to exotic forests.
- The *Forestry Rights Registration Act 1983* allows the right to cultivate and fell a forest on another's land to be registered as a specific interest in land under the land transfer regime.

### General legislation

The following statutes (including any subordinate legislation), while not specific to forestry, are highly relevant:

- The *Biosecurity Act 1993* is concerned with preventing the importation of microbial, animal or plant pests into New Zealand. This Act also governs the surveillance and prevention of certain organisms and provides a legislative framework for pest management within New Zealand.
- The *Hazardous Substances and New Organisms Act 1996* provides a legislative framework for the management (including the importation) of hazardous substances and new organisms and related decision-making.
- *Te Ture Whenua Māori (Māori Land Act) 1993*, which places restrictions on the use and alienation of Māori land, is relevant where a forest is to be established (usually by lease or forestry right) on land registered as Māori land. There are procedures in place under the Act which govern the granting, variation or assignment of interests in Māori land.
- The *Health and Safety in Employment Act 1992* deals with health and safety issues, requiring safety in the workplace and the provision of a safe working environment. It is enforced by the Occupational Safety and Health Service ("OSH"), a division of the Department of Labor. OSH and the forestry industry have established a Code of Practice for Safety and Health in Forest Operations (the "Code"). Compliance with the Code is not mandatory, however non-compliance with the Code may be found to be non-compliance with the Act. The Code places obligations on employers, self-employed people and employees and also recommends how to comply with the Act.
- The *Resource Management Act 1993* sets out a regime whereby regional and district councils are required to establish plans to deal with the activities allowed within each council's area. The various forestry activities (including establishment, thinning and harvesting) are stipulated to be permitted, controlled, discretionary or non-complying activities under each relevant plan. A Resource Consent must be obtained where an activity is a controlled, discretionary or non-complying activity (but not where the activity is a permitted activity under the relevant council plan). Most land use consents (including for water use and discharge of any run-off) which a forestry company is likely to require will, in all probability, need to be applied for under this Act.

Other relevant statutes include those relating to fencing (*Fencing Act 1978*), control of wild animals (*Wild Animals Control Act 1977*), customs and excise (*Customs and Excise Act 1996*), conservation and anti-pollution statutes (*Conservation Act 1987*, *Hazardous Substances and New Organisms Act 1996*) and laws relating to the preservation of historic places including archaeological sites and those sacred to Māori (*Historic Places Act 1993*).

### **Overseas Investment**

The law relating to overseas investment in New Zealand is governed by the Overseas Investment Act 2005 and Overseas Investment Regulations 2005. Investment by overseas persons (broadly non-New Zealand residents or companies in which non-New Zealand residents have greater than 25% control) in land deemed “sensitive” (including foreshore land, reserves, Māori reserves and non-urban land) will require the approval of the Minister of Finance and/or the Minister of Land. Approval will also be required for investment in non-land business assets worth NZ\$100 million or more.

### **Other Statutes**

General laws relating to such areas as taxation, construction, employment, health and safety and immigration are also applicable to forestry and wood manufacturing facilities. Laws relating to competition (e.g. the *Commerce Act 1986*) and common law and statutory provisions on general contract law and corporate/commercial law will also apply to the pricing and contractual relationships of any company in New Zealand. New Zealand is a member of WIPO and has a number of statutes regulating intellectual property issues including, copyright, trade marks, designs, plant varieties and patents. New Zealand also has regimes regulating both on-market and off-market offers of securities to the public and preventing the misuse of insider or other confidential information.

In addition to these issues, any wood processing facilities would need to be established in areas designated (“zoned”) for industrial use in the relevant “district” or “regional” plan. These are established by local authorities which also administer the resource management legislation.

### **International Dimensions**

New Zealand ratified the Kyoto Protocol in December 2002. New Zealand has begun implementing the Protocol in its domestic legislation. As part of this process, there are proposals to introduce a “carbon tax” on certain forestry operations and practices. The nature and extent of this tax (if any) and its application are as yet unclear.

Legislation (the *Climate Change Response Amendment Act*) amending New Zealand’s climate change legislation was recently passed. In addition to amending the Climate Change Response Act 2002 (New Zealand’s legislation implementing the Kyoto Protocol), this amends the Forests Act to allow for contracts between the Crown and landowners to create “forest sinks” — forests qualifying for carbon credits under the Protocol — and to control the felling of wood from such forests. A number of the substantive provisions of the climate change legislation have yet to come into force.

New Zealand is also a member of the WTO and of the 12-country Montreal Process relating to sustainable forest development.

## **Import/Export Restrictions**

The Biosecurity Act 1993 is concerned with preventing the importation of microbial, animal or plant pests into New Zealand. The Biosecurity Act, supplemented by certain provisions of the Hazardous Substances and New Organisms Act 1996, provides a consolidated regime governing the introduction of organisms, including timber, into New Zealand. While most of its provisions deal with importation, there are also obligations on the owners of imported organisms and on those who detect or suspect the presence of exotic pests. MAF is responsible for the regulation of the export of New Zealand forestry produce and in particular, is responsible for New Zealand's Export Phytosanitary (plant health) Certification system and New Zealand's associated obligations under the International Plant Protection Convention (the "IPPC") for phytosanitary certification. While the Plants Export Operations standards set out the operational requirements of the certification, including phytosanitary inspection, audit, post-inspection security, quarantine, and/or documentation; the precise inspection, certification and other requirements and restrictions for the export of New Zealand forestry produce are largely dependent upon the country of import. Wood packaging material is also required to be certified and marked pursuant to ISPM 15 (the International Standard for Phytosanitary Measures which stipulates guidelines regulating the international trade in wood packaging material). Other ISPMs (particularly those dealing with general procedures and pest control) may also potentially be relevant.

## **Principal Licenses/Permits/Certificates**

The principal licenses, permits or certificates required to be obtained by our Group in order to carry out its operations are set out below:

- four consents to roadline harvest and construction, two of which were issued in May 2006 and expiring in December 2011, one issued in March 2005 and expiring in December 2008, and one issued in October 2000 and expired in October 2002, respectively. The consent that has expired relates to a project that was delayed, and consent is expected to be renewed in or around December 2007 when the project is expected to be resumed;
- seven consents to clear fell harvest, four of which were issued in February 2004 and expiring in February 2014, one issued in February 2004 and expiring in February 2009, one issued in December 2006 and expiring in December 2012 and one issued in June 2002 and expired in August 2005, respectively. The consent that has expired relates to a project that was delayed, and the consent is expected to be renewed in or around December 2011 when the project is expected to be resumed; and
- two consents to construction and clear fell harvest, issued in August 2003 and expired in March 2006, and issued in August 2003 and expired in August 2006, respectively. These consents that have expired relate to projects that were delayed, and the consents are expected to be renewed in or around December 2009 and December 2007, respectively, when the projects are expected to resume.

## **Other issues**

The Forest Code of Practice sets out guidelines that aim to ensure safe and efficient forest operations.

The New Zealand Forestry Accord of 1991 is an important agreement between forestry organizations and conservation groups. It sets out standards relating to conservation and the use and promotion of indigenous trees in forestry. While it does not have the force of law, most major representatives of the forestry industry are signatories.

## GUYANA REGULATORY OVERVIEW

### Overview

The main regulatory legislation governing the grant and operation of timber concessions and wood products businesses in Guyana are:

**The Forests Act** — Chapter 67:01 of the Laws of Guyana. The Forest Act provides for any state land to be declared as state forest. The Act provides for (1) grants, leases and Timber Sales Agreements for cutting and taking or obtaining forest produce; (2) sale of forest produce; and (3) suspension and cancellation of leases. Regulations made under the Forest Act govern royalties, leases, transport privileges, transfer of title, felling limits and protected trees, sawmillers and timber dealers licenses. Under the Forest Act, the operation of a forestry concession requires Guyana Forestry Commission approval. Licenses are also required for operation of saw mills.

The **Timber Marketing Act** — Chapter 67:04 of the Laws of Guyana. The Timber Marketing Act and the regulations made thereunder provide for the control of the sale and use of timber including grading; the registration and affixation of brands; the use of preservative treatments; the issue of timber-marketing and export certificates; and the assignment of trade names. A timber company would be entitled without a license to market its wood products pursuant to its concession(s) and timber sales agreement(s).

**Guyana Forestry Commission Act 1979.** The main regulatory body charged with the administration of forestry in Guyana is the Guyana Forestry Commission established under the Guyana Forestry Commission Act 1979. The Guyana Forestry Commission issues timber sales agreements, leases and licenses under the Forests Act of Guyana. The Guyana Forestry Commission has issued the following non-statutory but strictly applied provisions, namely:

- *Forest Management Plan Guidelines (1999)*, a guide to the operation of a forest resource which must be followed for the issue of such licenses as may be required. These guidelines do not enjoy strict statutory status, but are complied with. These guidelines are designed to establish the administrative capacity of the operator to describe and evaluate the commercial potential of the forest resources in the area, protect fragile land on steep slopes, protecting water supplies and protecting the forest's wildlife and biological diversity, and obtain local community support for forest management. The terms of a Timber Sales Agreement between the Government of Guyana and an operator would specify that the operator shall submit a forest management plan setting out proposals in specific areas.
- *Code of Practice for Timber Harvesting 2nd Edition — November, 2002.* This code is not statutory and not legally enforceable, but is observed. Although concession non-compliance with this code



does not attract sanctions, the regulatory authorities namely the Environmental Protection Agency and the Guyana Forestry Commission will, in exercising any discretion, determine whether there has been compliance with or adherence to its terms as well as the Environmental Protection Act 1996. This code expresses the Guyana Forestry Commission's vision on satisfactory felling, extraction, road building and other timber harvesting practices. Its terms will be legally binding where included in Timber Sales Agreements and wood-cutting licenses issued by the Guyana Forestry Commission.

**Environmental Protection Act 1996.** The Environmental Protection Act established the Environmental Protection Agency (EPA) which is charged with the management, conservation, protection and improvement of the environment, the prevention or control of pollution, the assessment of the impact of economic development on the environment, the sustainable use of natural resources and matters incidental thereto. An environmental assessment board thereby created will determine whether to recommend the issue of an environmental permit.

**The Amerindian Act 2006** was passed to formalize the holdings of Community Lands by the indigenous population, the Amerindians, and to provide for the relationship of such lands with those under the ordinary purview of the Guyana Forestry Commission. The Act provides that the Guyana Forestry Commission must consider the impact on an Amerindian village before issuing any rights or permission to any person in respect of state forests contiguous with the village. There is also provision in the Act for the use of forest products from community lands in a forest area by a resident of that community. The Act does provide, however, that traditional rights shall be subject to the right of private holders of leases existing at the commencement of the proposed Act.

### **Import/Export Restrictions**

Under the Guyana Timber Export Board Act (Chapter 67:03 of the Laws of Guyana), the export of timber is prohibited without the express permission of the Guyana Forestry Commission.

Further, as a result of non-statutory policy decisions of the Guyana Forestry Commission, there is a restriction on the harvesting of bulletwood and an export restriction in relation to crabwood and locust species although permission can be sought in both instances to avoid the restriction.

The Guyana Forestry Commission establishes and recommends minimum export prices only. The free market is allowed to operate.

### **Principal Licenses/Permits/Certificates**

The principal licenses, permits or certificates required for our Group's operations are as below:

- Factory Registration at the Land of Canaan, East Bank Demerara, issued in March 1994 for an indefinite term;

- Timber Depot Licences Number ESS 03/2006 and ESS 02/2006, both issued in January 2006, and expired in December 2006. The Timber Depot Licences are subject to renewal on a yearly basis by application to the Guyana Forestry Commission upon their expiry. The renewal applications for the licenses have been submitted and are still pending. It is expected that the licenses will be renewed for a one year period; and
- Sawmill Licences Number DEM 01/2006 and ESS 23/2006, both issued in January 2006, and expired in December 2006. The Sawmill Licences are subject to renewal on a yearly basis by application to the Guyana Forestry Commission upon their expiry. The renewal applications for the licenses have been submitted and are still pending. It is expected that the licenses will be renewed for a one year period.

### OVERVIEW OF CRITERIA RELATING TO OUR CERTIFICATIONS

We have obtained various certifications as part of our business operations. Certain product certifications, including JAS certification for sale of plywood to Japan, JIS certification for sale of fiberboard to Japan and CE Marking for sale of plywood to the European Union, are required for product sales in specific markets in those regions. In addition to the product certifications which are essential for the sale of products to specific markets, we have also obtained forest management certifications and chain of custody certifications issued by the FSC and the MTCC. Forest certifications are voluntary and not currently required for the sale of our logs and wood products to all markets. The main criteria governing the certifications which we have obtained in connection with our business are set out below:

#### **Forest certification relating to our upstream operations**

##### *FSC forest management certification*

The FSC issues forest management certificates to forests which have been managed in compliance with the Principles and Criteria laid down by the FSC in order to promote environmentally responsible, socially beneficial and economically viable management of forests. The standard currently used is the “Forest Stewardship Standard” issued by the FSC. The FSC Principles and Criteria cover compliance with laws and FSC principles, tenure and use rights and responsibilities, indigenous people’s rights, community relations and worker’s rights, benefits from the forest, environmental impact, management planning, monitoring and assessment, maintenance of high conservation value forest and, where relevant, plantation management. The evaluation is based on the observations of an independent assessor for each indicator set out in the standard. The observation is carried out by means of study of documentation and records, field observation, interviews with managers, employees, contractors and other stakeholders of the applicant and evaluation of the effectiveness of management system implemented over the full geographical area operated by and the full range of management operations of the applicant. Whilst the FSC-accredited certification organizations will not insist on perfection in satisfying the Principles and Criteria laid down by the FSC, holders of the FSC forest management certificate will be required to demonstrate that there has been no major failures in any individual principles.

Holders of FSC forest management certificates are authorized to use the FSC trademarks off-product. The FSC certification scheme has been recognized as one of the international organizations that provides a system for different stakeholders interested in forest issues to work towards responsible forest management. As at December 2006, the FSC has issued forest management certificates covering approximately 84 million hectares of forest area worldwide. Recipients of FSC forest management certification include public governmental organizations as well as privately managed companies worldwide, and in respect of natural forests, tree plantations or semi-natural and mixed forests operated by such organizations. It is estimated that as at December 2006, there are approximately 8.2 million hectares of tropical natural and/or mixed forest area, or approximately 10% of the total forest area certified by the FSC, with FSC forest management certification. The remaining 90% of the FSC certified forest areas are made up of plantation, sub-tropical and temperate forests.

### *MTCC forest management certification*

According to information made publicly available by the MTCC, the MTCC issues Certificate for Forest Management to concession holders in Malaysia where the permanent reserved forests (PRFs) in the particular forest management unit have complied with the requirements of the forest management standard used in the MTCC scheme and the timber is harvested legally. The standards currently used by the MTCC are the “Malaysia Criteria, Indicators, Activities and Standards of Performance for Forest Management Certification (MC&I (2001))” although MTCC is in the process of implementing Malaysia Criteria, Indicators, Activities and Standards of Performance of Forest Management Certification (MC&I (2002)). The MC&I (2001) are based on the 1998 ITTO Criteria and Indicators for Sustainable Management of Natural Tropical Forests and cover criteria for enabling conditions for sustainable forest management, forest resource security, flow of forest produce, biological diversity, protection of soil and water and economic, social and cultural aspects. The MC&I (2002) were developed in collaboration with FSC, and uses the FSC Principles and Criteria as a guide. The MC&I (2001) contain the key elements for sustainable forest management covering economic, social and environmental aspects, whereas the MC&I (2002) is based on FSC Principles and Criteria, which are generally considered to be more comprehensive with international recognition. The MTCC is also currently in discussion with the FSC for further improvements to MC&I (2002) since its adoption on January 1, 2005.

The application for forest management certification is assessed by (a) independent assessors in accordance with the requirements of the standard set by MTCC; and (b) peer review by qualified individuals registered with MTCC for this purpose. The objective of the peer review is to ensure that the independent assessors have carried out an objective and professional assessment of the application. Holders of the certificate may use the MTCC logo off-product to provide an assurance that their forest management unit adheres to good forest management practices as required by the standards set by MTCC.

Forest management certificates issued by the MTCC are recognized by organizations in various countries across Europe, as well as in New Zealand and Japan, including:

- The Danish Ministry of Environment
- The Central Point of Expertise on Timber appointed by the Department for Environment Food & Rural Affairs, United Kingdom

- The Ministry of Agriculture and Forestry, New Zealand
- The Royal Horticultural Society, United Kingdom
- The French Ministry of Environment and Sustainable Development and the Ministry of Agriculture, Food and Rural Affairs
- The Forestry Agency, Ministry of Agriculture, Forestry and Fisheries, Japan

The MTCC scheme is currently implemented at a national level in Malaysia, and is recognized by certain organizations in Europe, Japan and New Zealand, compared to the FSC scheme which has international recognition generally. As at December 2006, MTCC has issued forest management certificates covering approximately 4.7 million hectares of forest areas in Malaysia. As at December 2006, there are nine recipients of MTCC forest management certificates. We are the first privately managed company in Malaysia and the only one in Sarawak to have obtained MTCC forest management certification. The other recipients of MTCC forest management certification are state forest departments of the Malaysian government.

Forest Management certification enhances market access for wood products in environmentally-sensitive markets such as Europe and the United States. Neither FSC nor MTCC certificates are currently essential for sale of wood products to overseas markets.

### **Forest certification relating to our downstream operations**

#### *FSC chain of custody certification*

The FSC issues chain of custody certificates to forest operators which can demonstrate that the channel through which products are distributed from their origin in the forest to their end-use are in compliance with the Principles and Criteria laid down by the FSC. It traces the steps of raw materials from the forest to the consumer, including all successive stages of processing, transformation, manufacturing and distribution. The standard currently used is also the “Forest Stewardship Standard” issued by the FSC. Operations that have been independently verified for FSC chain of custody certification are eligible to label their products with the FSC logo. The FSC certification scheme is recognized as one of the highest worldwide standards for sustainable and responsible forest management. FSC certificates enhance market access for wood products in environmentally-sensitive markets such as Europe and the United States. However, FSC certificates are not currently essential for sale of wood products to overseas markets. As at December 2006, FSC has issued approximately 5,400 chain of custody certificates worldwide.

#### *MTCC chain of custody certification*

The MTCC issues Certificate for Chain of Custody to manufacturers or exporters who have complied with the standard for chain of custody certification set by MTCC. The standard currently used is the “Requirements for chain of custody certification”. The requirements for chain of custody certification for MTCC and FSC are broadly similar. The application is assessed by independent assessors in accordance with the requirements of the standard for chain of custody certification set by MTCC. Holders of the certificate

may use the MTCC logo, on-product and off-product, to provide an assurance to buyers that their wood products are manufactured from sources of wood-based materials certified by the MTCC. Similar to forest management certificates issued by the MTCC, the MTCC certificates for chain of custody are also recognized by various countries across Europe, as well as in New Zealand and Japan. MTCC certificates enhance market access for wood products in Europe and Japan. However, MTCC certificates are not currently essential for sale of wood products to overseas markets. As at December 2006, MTCC has issued approximately 99 chain of custody certificates in Malaysia.

### **Product certification relating to our downstream operations**

#### *JAS certification*

JAS is a certification system for agricultural and forestry products administered by the Labeling and Standards Division of Food Safety and Consumer Affairs Bureau of Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF). Under applicable laws in Japan, most structural materials (including plywood) must be either JAS-compliant products or products with performance demonstrated to be equal to or better than the JAS standards. Producers and manufacturers may either be certified by a registered certification organization to label the JAS mark on their products following an inspection of the products or production process, or arrange for a registered inspection organization to inspect and label the JAS mark on their products. The applicant is assessed in areas of its systems documentation, personnel qualifications, company organization and infrastructure, grading and labelling for JAS certification. The application is assessed by (a) document review of quality management procedure; (b) on site inspection; and (c) continuous inspections and audits. Periodic surveillance audits are carried out by the relevant independent assessors on a monthly or quarterly basis, depending on the requirements of the independent assessors, to ensure on-going compliance with the relevant requirements.

#### *JIS certification*

JIS is a certification system administered by the Japanese Standards Association, a national inspection body authorized by the Ministry of International Trade and Industry of Japan. It covers industrial and mineral products with the exception of medicines, agricultural chemicals, chemical fertilizers, silk yarn and foodstuffs, agricultural and forest products designated under the Law Concerning Standardization and Proper Labeling of Agricultural and Forestry Products. The JIS mark provides a credible proof that a product that bears the certification mark complies with the relevant standards and marks a distinction against products that do not bear such a mark. JIS marks are generally required for fiberboards sold in Japan. An applicant factory is assessed on manufacturing, processing and testing facilities in the factory, testing methods and quality control methods and other technical manufacturing conditions necessary for quality control as far as compliance with the requirements under the JIS is concerned. Regular on-site surveillance audits are not required, although the independent assessors may perform spot checks to ensure on-going compliance with the relevant requirements.

### *CE Marking certification*

The CE Marking certification specifically relates to sale of products within the European Free Trade Association (EFTA) and the European Union members. It is a mandatory European marking for certain product groups to indicate conformity with the essential health and safety requirements set out in European Directives. By affixing the CE marking, the manufacturer, or its representative, or the importer assures that the item meets all the essential requirements of all applicable EU directives. The CE Marking certification system focuses on compliance with the relevant design and manufacturing requirements and surveillance of product and quality system. Periodic surveillance audits are carried out by the relevant independent assessors approximately every six months to ensure on-going compliance with the relevant requirements.

In relation to forest management and chain of custody certifications, periodic surveillance audits are carried out by independent assessors accredited by the FSC and the MTCC respectively to ensure on-going compliance. Such surveillance audits are carried out usually on an annual or bi-annual basis, depending on the requirements of the relevant independent assessor. During the course of their reviews, areas of non-compliance with the strict guidelines may be identified and corrective action requests (CARs) are issued. The FSC and the MTCC (as applicable) will usually require the CARs to be addressed and complied with within a specified time frame, failing which it may lead to a temporary suspension or withdrawal of the certification. The length of time for correction or rectification of CARs will depend on both the nature of the shortcomings and the practicalities of addressing the problem. An extension of time may sometimes be granted for such correction. During the suspension period, logs or products (as applicable) may continue to be produced from the relevant forests or production facilities but such logs or products will not be FSC or MTCC certified.