



AT OFFICE SYSTEM®

POH HUAT RESOURCES HOLDINGS BERHAD (443169-X)

PLO 1, Jorak Industrial Area, Mukim Sungai Raya, 84300 Bkt. Pasir, Muar, Johor, Malaysia.
Tel : 606-9859688 Fax : 606-9859212 Home Page : www.pohhuat.com

29 April 2021

The Chief Executive Officer
Minority Shareholders Watch Group
Tingkat 11, Bangunan KWSP,
No 3, Changkat Raja Chulan, off Jalan Raja Chulan,
50200 Kuala Lumpur.

BY HAND

Attention : Mr Devanesan Evanson

Dear Sir,

23rd Annual General Meeting of Poh Huat Resources Holdings Berhad (“Poh Huat”) on 29 April 2021.

We refer to your letter dated 12 April 2021. Kindly find your issues raised in the interest of minority shareholders and all other stakeholders of Poh Huat and our management replied hereunder.

Operational & Financial Matters

1) 96% of the sales of the Company for FYE 2020 were derived from US and Canada. (Page 6 of AR 2020). These markets were severely affected by the pandemic.

- a) What are the measures taken by the Company to diversify its sales base and reduce its dependence on these two markets?

We are exporting our products to more than 50 countries. We have established a strong market position in the US and Canada, hence received sustained orders from our diversified customers base of more than 50 customers in the North American market.

Unlike most other economy sector in the US, the furniture and home furnishing sector has experienced rapid growing trend following the first 6 months of the pandemic and we have even received more orders from our US customers due to the recovery of the furniture market since the third quarter of 2020, in line with the stay at home and work from home norms.

- b) Does the Company have any plans to diversify its main businesses of producing home and office furniture in view of the stiff competition of the business?

Furniture manufacturing will remain as our core business while home and office furniture will remain our core products. We did not experience any stiff competition as we have our own competitive edge in securing / maintaining the customers' base. In addition, unlike many furniture manufacturers, we produce both home and office furniture as our products, thus enabling us to serve customers addressing both the home and office segments of the US market. Therefore, we have no plan to diversify into non-core businesses.



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- 2) The Malaysian manufacturing base comprises 5 factories which are situated on 9.40 hectares of land in Muar, Johor. These factories have a total workforce of more than 1,000 people and are equipped with modern automated panel-based wood-working machinery and finishing systems. The Muar factories specialise in the manufacture of panel-based office, home and home-office furniture, primarily for the export market. (Page 6 of AR 2020).

- a) What is the number of foreign workers hired by the Company to run this manufacturing plant?

There are around 880 foreign workers in our Malaysia plants as at 31 Mar 2021.

- b) Since the government is making it more stringent to hire foreign workers currently, what are the Company's plans to ensure that it has adequate supply of workers ? Does the Company have any plans to increase automation to reduce its dependence on labour ?

Yes. We are committed to invest in automation to reduce reliance on manual labour. Our Malaysian products are mostly panel based and we plan to install automation machinery and processes in our new and existing factories.

- 3) How does the Company ensure that the raw materials that it sources i.e timber comes from sustainable forests as its key export markets of US and Canada have very strict requirements that the furniture they import has to come from sustainable forests?

In compliant with the labelling requirements for composite wood products sold in the US, the Company has in place the necessary measures across its sourcing and manufacturing process to ensure products exported to the US are Toxic Substances Control Act Title IV ("TSCA") compliant. Our capability in this regard has enabled it to maintain its market share and customer relationships in this market.

The Company adheres to requirements of the Programme for the Endorsement of Forest Certification ("PEFC") Chain of Custody ("COC") Certification and a majority of its products are certified as PEFC COC compliant. PEFC is one of the world's largest forest certification systems which promotes sustainable forest management taking into account economic, environmental and social aspects in the supply chain of forest-based materials.

- 4) The Company's cash position improved from RM133.1 million in FYE 2019 to RM190.1 million. (Page 88 of AR 2020) - an increase of 43%.

- a) Does the Company have any plans of increasing its dividend pay-out to shareholders since it has a healthy cash balance?

Further to our last year's reply to your letter dated 24 July 2020 and our Management Discussion and Analysis section in our annual report in FY2019, barring any major changes in the Group's operating environment, we shall maintain a dividend payout ratio of about 30%.



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We regard to our cash reserves, our priority in order of importance is:-

- i) Sustaining operations and payroll, even during the worst situation;
- ii) Continuous capital expenditure to replace and enhance production facilities;
- iii) Maintaining dividend payout.

- b) The Company's fixed deposits obtained interest rates of between 1.4% to 6.3%. How did the Company manage to secure an interest rate of 6.3% which is above the prevailing FD return. How did the Company obtain this return and what is the tenure of the deposit?

As our last year's reply to your letter dated 24 July 2020, the above prevailing FD return is from an isolate 1-year VND fixed deposit placement, pledged as security against trade facilities with a bank in Vietnam. (Page 88 of AR 2020, Note 14 (b))

- 5) The Company did not derive any revenue from its Australian assets in FYE 2020. (Page 101 of AR 2020). What are the Company's plans for its Australian assets?

We derived casual rental income from the Australian assets which was classified as Rental Income in page 84 of AR 2020.

- 6) As of 31 October 2020, the Company held as treasury shares a total of 13,327,600 shares out of its 278,299,908 issued and fully paid-up ordinary shares. The treasury shares are held at a carrying amount of RM 2,836,481. (Page 45 of AR 2020). What are the Company's plans for these treasury shares?

We will continue to retain all the repurchased shares as treasury shares.

- 7) The Company transferred around RM28 million from its Plant, Property and Equipment (PPE) as Investment Properties. (Page 83 of AR 2020). The rental income increased by RM255k while the net rental income declined from RM733k in FYE 2019 to RM520k in FYE 2020.

- a) What is the rationale of transferring the assets from PPE?

We acquired the first detached warehouse cum office for AUD4.25 mil in September 2016 and another detached warehouse cum office for AUD4.98 mil in July 2018, both in Australia, for the total amounts of RM28 million. They were classified as PPE then. Both warehouses have now been leased out on a long-term basis since Nov 2020, and therefore have been classified under "investment properties".

- b) Will the transfer have any impact to production in the future?

No.

- c) Are these assets currently being used in production?

No. The warehouses have been leased out for rental income.



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Corporate Governance

- 1) Practice 4.1 of the Malaysian Code of Corporate Governance stipulates that the at least half of the Board has to be made up of Independent Directors. As of October 31, 2020, only 3 out of the 8 directors are independent. This represents only 37.5% and this does not comply with the Practice. Does the Company intend to comply with this Practice and if yes, by when?

The Company complies with Paragraph 15.02(1) of the Main Market Listing Requirements which states that at least 2 directors or 1/3 of the Board members of a listed issuer, are independent directors. We have not set a timeframe to comply the Practice 4.1 of the Malaysian Code of Corporate Governance.

- 2) Boo Chin Liong and Chua Syer Cin have served the Company for almost 20 years as Independent Non-Executive Directors. (Resolution 8 of AGM).

- a) Does the Company have any succession planning in place for Non-Executive Directors who have served the Company for such a long time?

We are constantly looking for suitable/ qualified candidates to be our independent non-executive directors. The 2 long serving independent non-executive directors have indicated their intention to step down once the suitable candidates have been confirmed.

- b) Is the Company carrying out two tier voting for this resolution, and if not, why ?

Yes. We practise 2-tier voting for these resolutions.

Please feel free to contact our Company Secretary should you require further clarification. Thank you.

Yours faithfully,

Poh Huat Resources Holdings Berhad

Tay Kim Huat
Group Chief Executive Officer