

AUDIT STATEMENT

for

SAFODA/Acacia Forest Industries Sdn. Bhd.

Metro Town, Block L, Unit No. 1, 2nd Floor, Jalan Lintas, 883000 Kota Kinabalu, Sabah, Malaysia.

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SAFODA/Acacia Forest Industries has demonstrated compliance to the Sabah Timber Legality Standard (Sabah TLAS P1-4 Nov 2013) for the forest area based on the assessment conducted in Nov 2018 reported in document G161-290. This statement serves to define the due diligence requirements for legal compliance to the local Sabah Standard established as part of the current FLEGT VPA negotiations. The material harvested from this FMU is classified as Verified Legal (VL).

Product Schedule : *Acacia Mangium, Eucalyptus Pelita.*

Legal Status : Verified Legal

Origin of Material : Sabah, Malaysia.

Validity of this Statement of Compliance will be dependent upon the ability of **SAFODA/Acacia Forest industries** to demonstrate continual compliance to the Sabah Timber Legality Standard as monitored by GFS. Summary legal verification report and audit statement shall be posted on the client database (www.gfsinc.biz).

GLOBAL FORESTRY SERVICES LEGAL VERIFICATION SERVICES

Audit Statement # : GFS 093 LVS
Issuance Date : 01 December 2018
Expiration Date : 30 November 2019

Global Forestry Services



Kevin T. Grace Ph.D
Director

The assessment, on which this statement is based, was made in good faith by evaluating representative samples of the organization's operations and activities in relation to the standards for Legality as defined by the Sabah TLAS Standard P1-4. This document does not constitute any representation to the quality of any products sold by the named organisations and Global Forestry Services accepts no liability in respect thereof. This statement remains the property of Global Forestry Services and must be returned upon request.

Document Control

GFS-FORM-006-SABAH TLAS-2.3	Title: Audit Statement Sabah TLAS P1-4	Issue: 02	Date: 1 March 2017
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LICENSED AREAS

for

SAFODA/Acacia Forest Industries Sdn. Bhd.

1.1.1.1 Signed License Agreement

Sustainable Forest Management Licensed Agreement (SFMLA) is only applicable for Forest Reserve and to be managed under a Forest Management Unit (FMU). AFI is operating within SAFODA gazetted area, thus not applicable.

In accordance with the Gazette Notification No. 684/83 dated 22nd July 1983 and 900/83 dated 17th November 1983, the State Government of Sabah delineated a portion of land measuring approximately 61,480 ha of land in the Bengkoka Peninsula in the District of Pitas, Sabah, for the purpose of the Afforestation Resettlement Scheme Reserve to SAFODA. A series of signed agreements shows the legal use rights of AFI at the current area:

Chronology	Remarks
Memorandum of Agreement dated 28 th February 1998	Signed between SAFODA and Kilang Papan Dasatu Sdn. Bhd. (KPD) for a joint venture to produce wood chips, MDF & other wood products for the purpose of higher value adding in respect of the plantation logs.
Supplemental Agreement dated 16 th March 1998	Signed between SAFODA and KPD, agreed to amend certain provision of the agreement.
Sales & Purchase Agreement dated 25 th June 1999 (The Principal Agreement)	Signed between SAFODA and KPD, SAFODA had agreed to sell, and KPD had agreed to purchase all the plantation logs extracted or to be extracted from an area of forest plantation measuring 17,000 ha of the Gazetted land. This Principal Agreement also contained a provision whereby SAFODA had undertaken to increase the aforesaid hectares of the Gazetted Land to 25,000 ha by 30 th June 1999.
1 st Supplemental Agreement	Signed between SAFODA and Serisar Forest Plantation and Products Sdn. Bhd. (SFPP) (which had assumed the rights and obligations of KPD. by a novation agreement dated 5 th January 2000 between SAFODA, SFPP, and KPD).
Joint Venture Agreement (JVA) to form AFI dated 24 th January 2003	SFPP signed a Joint Venture Agreement (JVA) with SAFODA to form a Joint Venture Company on a 50-50 equity basis to plant and replant an area of 25,000 ha with timber species for a period ending in year 2060. Following the JVA signed in 2003, a joint venture company called Acacia Forest Industries Sdn. Bhd. (AFI) was formed on 6 th October 2004. The lease period covered by these JVA is 60 years.
	SFPP changed its name to Mangium Plantations Sdn. Bhd. (MPSB). It is acknowledged by SAFODA that Mangium Industries Berhad (MIB), the 100% shareholder of MPSB, had on 3 rd August 2007 executed a share purchase agreement with Global Emerging Markets Forestry Investor LLC (GEMF). Pursuant to the First Supplemental Agreement, SAFODA had agreed to sell to MPSB, and

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2 nd Supplemental Agreement dated 4 th December 2003	<p>MPSB had agreed to purchase all the extracted plantation logs from SAFODA.</p> <p>MIB was responsible for constructing a woodchip mill at Telaga in year 2004, which started production by the end of year 2005.</p>
April 2008	<p>Global Emerging Markets Forestry Investors (GEMFI) acquires the entire shareholding of MPSB and the woodchip mill company in Telaga. Both assets are now being managed via a holding company named Hijauan Asia Sdn. Bhd., based in Mentakab, Pahang.</p> <p>MPSB was renamed to Hijauan Bengkoka Plantations Sdn. Bhd. (HBP). The total harvested area by the end of year 2011 was 8,563 ha leaving a balance of 7,179 ha (remaining SAFODA planted area) of mature <i>Acacia mangium</i> forest from the first rotation.</p>
3 rd Supplemental on 15 th February 2012	Signed between SAFODA and HBP on the confirmation of stumpage rate.
4 th Supplemental on 23 rd March 2018	Signed between SAFODA and HBP on the shareholder percent transferred.

- Form IIB license was only issued for export sales (Ref.#: JPHTN/PP 100-4/1(Klt.64)/83 dated 24th June 2014; item no.5).

1.1.1.2 Coupe Permit # & 1.1.1.3 Expiry date

- No coupe permit required for **AFI**'s harvesting operation as activities were carried out located within SAFODA gazetted area.

Not Applicable

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