

MATANG BERHAD ("MATANG" OR THE "COMPANY")

PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF MATANG AND ITS SUBSIDIARY COMPANIES TO INCLUDE DURIAN PLANTATION, PROCESSING, PRODUCTION, DISTRIBUTION AND ANY RELATED DOWNSTREAM BUSINESS ACTIVITIES ("PROPOSED DIVERSIFICATION")

1. INTRODUCTION

On behalf of the Board of Directors of Matang ("Board"), UOB Kay Hian Securities (M) Sdn Bhd ("UOBKH") wishes to announce that the Company intends to undertake the proposed diversification of the existing principal activities of Matang and its subsidiary companies ("Matang Group" or the "Group") to include the durian plantation, processing, production, distribution and any related downstream business activities ("Durian Business").

Further details of the Proposed Diversification are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED DIVERSIFICATION

Currently, Matang Group is principally involved in the management of plantation estate, sale of fresh fruit bunches ("FFB") and property holding. Within its principal activities, the Group is primarily focused on oil palm plantation activities (i.e. the management of its plantation estate and sale of FFB). The sole revenue contributor to the Group is derived from the sale of FFB from its oil palm plantation activities. The key financial performance for the past 3 financial years up to the financial year ended ("FYE") 30 June 2019 is as follows:-

	<----- Audited ----->		<--- Unaudited --->
	FYE 30 June 2017	FYE 30 June 2018	12-month FYE 30 June 2019
	RM'000	RM'000	RM'000
Revenue	10,204	12,641	9,749
Profit after tax ("PAT")	1,257	4,090	1,832
FFB (tonnes)	15,983	22,974	24,029
Average selling price of FFB per tonne (RM)	638	550	406

Based on the above, despite the increase in the Group's production and sales of FFB from its estate year-on-year, the average selling price of FFB per tonne has gradually decreased over the past 3 financial years under review, which is mainly due to the softening of crude palm oil prices in the recent years. As part of the Group's strategy to mitigate the reliance on its oil palm plantation activities as well as to diversify and expand its earnings base, the Group has identified Durian Business as a viable business to venture into. Please refer to Section 3 of this announcement for further details on the rationale for the Proposed Diversification.

Pursuant to the Proposed Diversification, Matang Group intends to diversify its existing principal activities to include the Durian Business, which entails, amongst others, the plantation, harvesting, transportation, processing, marketing, sales and distribution of the durian fruits, as well as other related downstream business activities associated with the Durian Business.

In pursuing the diversification into Durian Business and at this juncture, the Company has identified a land area of approximately 46.6 hectares (or about 115 acres) ("Identified Land") within its existing oil palm plantation estate of 1,094.15 hectares (or about 2,703.7 acres) (freehold land free of all encumbrances) located in District of Ledang and District of Segamat, Johor, for the plantation of durian. The Identified Land, currently planted with oil palm trees above 20 years, has been identified for replanting in the near future.

The Identified Land has sloping terrain that is notably suitable for durian plantation and soil tests undertaken thus far on the Identified Land have also indicated the suitability of such land being used for durian plantation. In addition, there are no approvals required from the relevant authorities and/ or third parties (save for shareholders' approval for the Proposed Diversification) and there is no restriction of land use pursuant to the land titles for the Identified Land, for durian plantation.

Subject to the shareholders' approval being obtained for the Proposed Diversification, Matang Group intends to commence the earthwork and infrastructure work for the durian plantation on the Identified Land in the first quarter of 2020, followed by planting, nursery preparation and bud grafting of the durian seedlings from the second half of 2020. At this juncture, the Group intends to fund the aforementioned initial works (i.e. earthwork, planting etc) through internally generated funds, the amount of which can only be ascertained at a later stage. After the plantation phase, durian trees are expected to mature and start fruiting in the 5th-6th year and barring unforeseen circumstances, the Durian Business may contribute to the future earnings of the Group in 2025-2026.

In addition to the above, Matang may also in the future embark on additional viable ventures into the Durian Business through organic approaches or otherwise, including but not limited to, strategic businesses/ investments, joint ventures, collaborative arrangements, business agreements, and/ or mergers and acquisitions of suitable businesses/ investments in the durian industry subject to applicable compliance/ rules required under the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing Requirements") and other relevant acts or authorities applicable at the material times.

Premised on the above, the Board anticipates that, barring any unforeseen circumstances, the Durian Business may contribute 25% or more of the net profits or net assets of Matang Group moving forward. Pursuant thereto, the Board proposes to seek the approval from the shareholders of Matang for the Proposed Diversification pursuant to Rule 10.13(1) of the Listing Requirements.

Notwithstanding the Proposed Diversification, the Board will continue with the existing principal activities of Matang Group in the same manner.

The Group has identified Datuk Teoh Sew Hock ("Datuk Teoh"), who is a Non-Independent Non-Executive Director of the Company, as the key personnel in leading the initiative for the diversification into the Durian Business. Datuk Teoh is a businessman whose family-owned business comprise manufacturing, property, and food and beverage businesses in Johor. Please refer to the Annual Report of the Company for the FYE 30 June 2018 for further details on the profile of Datuk Teoh.

In executing the development work for the Durian Business, the Company intends to engage third party contractor(s) to develop the Identified Land for Durian Business that includes but not limited to land clearing, earth works, infrastructure works and planting works. An internal management team will also be put in place specifically for the management of durian plantation together with the engagement of suitable consultant(s) and/ or third party contractor(s) in areas necessary for the operation of the Durian Business.

3. RATIONALE

At present, Matang Group is primarily focused on the management of its oil palm plantation estate and sale of FFB, in which its revenue is solely derived from such activities.

The existing oil palm plantation business of the Group has witnessed volatility of world crude palm oil prices since the start of 2017 which has resulted in downward trend of FFB prices during the same time. As seen in the table set out in Section 2 of this announcement, despite the increase in the Group's production and sales of FFB from its estate year-on-year, the average selling price of FFB per tonne has gradually decreased over the past 3 financial years under review, of which is mainly attributable to the softening crude palm oil prices in recent years. With due regards thereto and to mitigate the reliance on its oil palm plantation activities as well as to diversify and expand its earnings base moving forward, the Group has been continuously seeking opportunities to diversify into other viable businesses. In line with its strategy, the Group has identified Durian Business as a viable business to venture into, as further elaborated hereinbelow.

The durian plantation businesses have seen increasing demands for their fruits and processed products in non-durian native countries with reasonably attractive prices fetched for such durians and related products. The supply of durians which is limited to certain tropical countries has allowed durian plantations to enjoy significant advantages driven by strong demands in particular for certain breeds of durians such as Musang King or its equivalent grade. The increasing demand for durians from overseas countries and the limited supply of durians from Malaysia is believed to have resulted in rising average export prices of durians from Malaysia over the recent years.

Premised on the above, the Group views the Proposed Diversification (into the Durian Business) as a viable means to provide an opportunity for diversification in plantation sector with additional streams of revenue and income with no significant risk to the Group financially or otherwise. The Proposed Diversification is expected to augur well in the overall scheme of plantation business of the Group in view also of the potential and prospect of the Malaysian durian industry.

Barring any unforeseen circumstances, the Board believes that the Proposed Diversification will potentially contribute positively to the Group's future earnings. However, as the business in oil palm plantation is the supply of commodity with wide range of applications and uses, the Group remains committed to maintain its existing core business in the oil palm plantation.

4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

4.1 Overview and outlook of the Malaysian economy

The Malaysian economy expanded at a more moderate pace of 4.7% in 2018 (2017: 5.9%). Despite a positive start to 2018, the economy subsequently was confronted with several external and domestic challenges. Major policy and political shifts, arising partly from the global trade tensions and the historic change of government in Malaysia, became sources of uncertainty for the economy. Unanticipated supply disruptions in the mining and agriculture sectors, as well as commodity exports adversely affected Malaysia's economic performance, resulting in a larger-than-expected moderation in growth.

Domestic demand continued to anchor growth, supported mainly by private sector expenditure. Private consumption growth, in particular, recorded the fastest rate since 2012 at 8.1% in 2018 (2017: 7.0%). Favourable wage and employment growth continued to drive household spending with additional support from the three-month tax holiday (1 June 2018 – 31 August 2018) following the zerorisation of the Goods and Services Tax (GST) rate, as well as other Government measures such as the fixing of the retail fuel price of RON95 petrol and special payments to civil servants and pensioners.

On the supply side, most economic sectors recorded an expansion, with the exception of commodity-related sectors. The services sector's growth improved to 6.8% in 2018 (2017: 6.2%), the highest since 2011, as better consumer sentiments and favourable labour market conditions spurred spending, in particular during the tax holiday period. The manufacturing sector expanded by 5.0% in 2018 (2017: 6.0%) supported primarily by a continued expansion in the electrical and electronics cluster. The construction sector recorded a moderate growth of 4.2% in 2018 (2017: 6.7%) due to weaknesses in the property segment. Growth in the mining sector, however, contracted by 1.5% in 2018 (2017: 1.0%) due to the decline in natural gas production, while adverse weather and production constraints that affected palm oil and rubber production led to a decline in growth in the agriculture sector (2018: -0.4%, 2017: 7.2%).

Against the backdrop of a challenging global environment, the Malaysian economy is expected to sustain its growth momentum, expanding by 4.3% – 4.8% in 2019 (2018: 4.7%). Domestic demand will remain the anchor of growth, underpinned by continued expansion in private sector activity. Private consumption growth is expected to moderate, but remain firm supported by stable labour market conditions and continued wage growth. The implementation of several government measures, particularly aimed at alleviating rising cost of living, is expected to further support consumption spending, especially by lower income households. Private investment activity will be supported by the implementation of on-going multi-year projects, particularly in the manufacturing and services sectors. The normalisation of destocking activities by firms after the strong demand during the tax holiday period in 2018 will serve as an additional support to growth. Public sector expenditure, however, is expected to weigh on growth. The projected contraction in public investment will be due mainly to lower investment by public corporations following the completion of large-scale projects, while the expectations for a moderate growth in public consumption reflect the continued reprioritisation of government spending.

(Source: Bank Negara Malaysia Annual Report 2018)

4.2 Overview and outlook of the durian industry in Malaysia

In Malaysia, the durian has been highlighted as one of the nine selected premium fruits under the Malaysian National Agro-food Policy (2011 – 2020). This fruit has also been identified as a new source of agricultural wealth for Malaysia.

Malaysia's planted area of durian crops witnessed a decline from 73.7 thousand hectares in 2014 to 72.4 thousand hectares in 2017 before moderating at 72.5 thousand hectares in 2018. Nonetheless durian production rose from 351.5 metric tonnes in 2014 to peak at 368.3 metric tonnes before dipping to a low of 210.9 metric tonnes in 2017. In 2018, the production of durians saw improvement and rose to 251.9 metric tonnes.

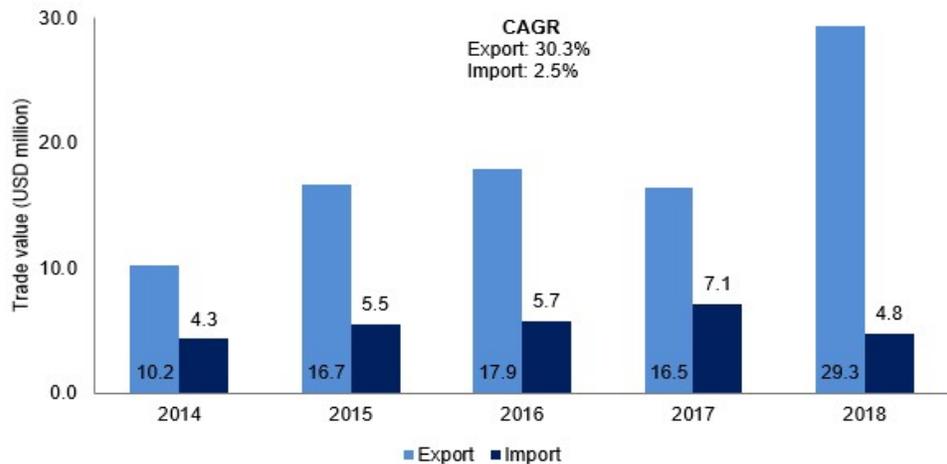
Weather plays a vital role in the quality and quantity of fruits as durian trees need sufficient water to absorb nutrients from the ground. The drop in production in 2016 was a result of the prolonged hot and dry weather from January to April, causing unripe fruits to fall from the trees due to shortage in water and nutrients. The prolonged rainy season that began in the first quarter of 2017 made it hard for durian trees to bear flowers in 2017.

The majority of export-oriented fresh durian production is in Peninsular Malaysia, mainly in the states of Pahang, Johor, Kelantan and Perak. Johor is the second largest durian producing state in Malaysia with a production volume of 87.8 metric tonnes in 2018 behind Pahang's production of 89.9 metric tonnes.

Domestic durian prices, particularly the wholesale and retail prices for the durian kampung and D24 variety, have been on an upward trend since 2014, as seen in the table below:-

Variety		Average price (RM per kg)				
		2014	2015	2016	2017	Jan – Aug 2018
Durian kampung	Ex-farm	3.50	2.40	4.40	8.55	5.60
	Wholesale	3.45	3.60	6.25	11.80	8.35
	Retail	5.30	5.35	9.20	16.70	12.70
D24	Ex-farm	10.60	7.00	10.95	15.40	10.35
	Wholesale	6.30	9.35	13.75	21.50	16.05
	Retail	9.95	12.60	18.50	30.10	22.80

Malaysia is a net exporter of durian. As seen in the table below depicting the export and import of durian in Malaysia since 2014, Malaysia's exports of durian rose from USD10.2 million (or 13.2 metric tonnes) in 2014 to USD29.3 million (23.4 metric tonnes) in 2018. In comparison, Malaysia's imports of durians rose from USD4.3 million to USD4.8 million during the same period.



Beyond domestic consumption, the potential for Malaysia's durian industry is strongly supported by demand growth from its trading partners. Malaysia's main export partners are Singapore, Hong Kong Special Administrative Region ("Hong Kong") and the People's Republic of China ("China"), whereby between 2014 and 2018:-

- durian exports to Singapore rose from USD5.3 million to USD13.0 million at a CAGR of 25.1%;
- durian exports to Hong Kong rose from USD2.6 million to USD6.4 million at a CAGR of 25.3%; and
- durian exports to China rose from USD1.9 million to USD2.3 million at a CAGR of 4.9%.

The demand for durian from Malaysia has also supported the rise in export prices. Between 2014 and 2018, the export prices for durians from Malaysia rose from USD0.77 per kg to USD1.25 per kg supported by rising demand for Malaysia's durians and influenced by shortage in supply for export. In particular, the export prices for durians to Hong Kong and China have hovered between USD9 per kg and USD13 per kg during this period, peaking at USD12.20 per kg in 2017 due to the shortage in supply for the export market. In comparison, the export prices for durians to Singapore rose from USD0.44 per kg to USD0.62 per kg between 2014 and 2018.

In the past, China had primarily imported durians from Thailand. Nonetheless, in recent years, China has begun shifting its demand for durians to Malaysia, specifically for the Musang King variety. Recently, China has approved the import of frozen whole durians from Malaysia in May 2019, in time for the durian season from June to September 2019. Though Malaysia has been exporting frozen durian pulp to China since 2011, this new agreement will allow the whole fruit to be shipped to China commencing from August 2019, where premium durians are rapidly gaining popularity.

The Malaysian Government is leading the charge for the large-scale farming of durians, in hopes of achieving a 50% rise in exports for the fruit by 2030 and boosting the country's declining agricultural industry. According to the Minister of Agriculture and Agro-based Industry of Malaysia, Dato' Haji Salahuddin bin Ayub, durian exports to China are expected to contribute close to RM500 million to the nation's total export value annually. In August 2019, the Federal Agricultural Marketing Authority (FAMA) announced its intentions to cultivate durian on idle endowment land especially on the fringes of towns and isolated areas nationwide. Further, the private sector-led, multi-stakeholder Electronic World Trade Platform (eWTP) initiative provides resources for local durian suppliers in Malaysia to enter the Chinese market to sell its frozen whole Musang King durians.

(Source: Independent Market Research Report dated 2 October 2019 prepared by Providence Strategic Partners Sdn Bhd ("Providence"))

4.3 Prospects of the Proposed Diversification

Matang is primarily engaged in the plantation sector with existing core activities focused on the oil palm plantation, i.e. the management of its plantation estate and sale of FFB from Matang Estate of 1,094.15 hectares located in District of Ledang and District of Segamat, Johor.

The Proposed Diversification represents an opportunity for Matang Group to diversify its existing business in the plantation sector to include other cash crops or fruits, i.e. durians from Malaysia which have seen rising demand and prices in recent years while supply and production of the same have remained limited. The Proposed Diversification may possibly in the long run reduce the Group's current significant reliance on its oil palm plantation for which financial performance has in recent financial years been affected by the decline in FFB prices.

The durian plantation on the Identified Land serves as an entry point for Matang's Durian Business and if undertaken successfully, will allow Matang Group's expansion into the plantation business and also related downstream activities including processing, production, transportation, marketing, sales and distribution of durian. The Durian Business is expected to provide the Group with additional stream of revenue and income in the future financial years, barring unforeseen circumstances.

Premised on the above as well as the outlook of durian industry as set out in Section 4.2 of this announcement, the Board believes that the Proposed Diversification may enhance the Group's future prospects as it represents an opportunity to expand its income stream.

(Source: Management of Matang)

5. RISK FACTORS

Pursuant to the Proposed Diversification, Matang Group will be exposed to risks inherent in the durian industry which include, but not limited to, the following:-

5.1 Business risk

Pursuant to the Proposed Diversification, Matang Group's business are now subject to risks inherent in the durian industry. These include but not limited to, adverse changes in supply and demand conditions, outbreaks of diseases, damage from pests, fire or other natural disasters, adverse climate conditions, downturns in the global, regional and/ or national economies, changes in law and tax regulations, unfavourable foreign exchange rates or trade duties, increase in labour cost and other production costs, and changes in business and credit conditions. Notwithstanding that, Matang seeks to conduct a periodic review of its business and site operations and also adopt prudent financial management and efficient operating procedures to limit the impact of the aforementioned risks. However, there can be no assurance that the Group may be able to successfully mitigate the various risks inherent in the durian industry, and if unable to do so, the business operation and financial performance of the Group may be adversely affected.

5.2 Competition risk

Matang Group may face competition from existing competitors and/ or new entrants operating in similar business relating to the durian business activities, from both local and regional durian farmers/ business operators, particularly Thailand and Indonesia. Nevertheless, the Group will continue to take proactive measures to remain competitive in this business by inter-alia, constantly keeping abreast with the latest market conditions, and continuing efforts in maintaining a competitive edge in terms of cost and operational efficiency throughout its value chain (i.e. from sourcing for durian seeds to cultivation techniques and logistics) as well as product quality. However, there can be no assurance that the Group will be able to compete effectively with existing and new entrants in similar business relating to the durian business activities in the future which may materially affect the Group's financial performance.

5.3 Dependency on key personnel

As in any other business, Matang Group's success in the Durian Business depends largely on the capabilities, skills, competencies and continued effort of its experienced personnel. Recognising the importance of the key personnel involved, the Group will adopt appropriate approaches, including incentives, remuneration packages as well as provide a good working environment to promote productivity and retain their services. Suitable consultant(s) and/ or third party contractor(s) will be engaged in the areas necessary for the operation and/ or management of the Durian Business to manage the risk arising from dependency on key personnel. However, there is no assurance that the loss of any such key personnel will not adversely affect the Group's ability to succeed and compete in the Durian Business.

5.4 Political, economic and regulatory risk

With the participation of the Group in the durian industry, its business, prospects, financial condition and level of profitability are now subject, to a certain extent, the developments in the economic, political and regulatory environment of Malaysia as well as key export markets such as China. Such risks include, economic uncertainties, changes in rules and regulations particularly those governing the environmental impact or sustainability issues, trade policy, unfavourable monetary and fiscal policy, changes in political leadership and changes in tax laws. Notwithstanding that, the Group will constantly keep abreast with the political, economic and regulatory developments through various media, events and/ or seminars, and may also engage in discussion or meeting with the relevant stakeholders to evaluate, introduce and/ or undertake measures with the aim of mitigating impact of the aforementioned risks. However, there can be no assurance that any adverse development in the economic, political and regulatory environment in Malaysia will not have any material adverse effect on the business operation and financial performance of the Group.

6. FINANCIAL EFFECTS

6.1 Issued share capital and substantial shareholders' shareholdings

The Proposed Diversification will not have any effect on the issued share capital and the substantial shareholders' shareholdings in the Company as it will not involve any issuance of new shares.

6.2 Earnings and earnings per share

The Proposed Diversification is not expected to have any immediate material effect on the earnings of the Group. However, the Proposed Diversification may contribute positively to the future earnings of the Group as and when the durian fruits are ready for harvesting.

6.3 Net asset ("NA") per share and gearing

Barring any unforeseen circumstances, the Proposed Diversification is not expected to have any immediate material effect on the NA and gearing of the Group. However, the future NA and/ or gearing of the Group will depend on the manner of funding for the cultivation/ planting expenditure, as well as the future profit contribution arising from the Durian Business as and when the durian fruits are ready for harvesting.

7. APPROVALS REQUIRED

The Proposed Diversification is subject to the following approvals:-

- i. The shareholders of Matang at a general meeting to be convened; and
- ii. Any other relevant authority and/ or third parties, if required.

The Proposed Diversification is not conditional upon any other proposals undertaken or to be undertaken by the Company.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED TO THEM

None of the Directors and/ or major shareholders of Matang and/ or persons connected with them have any interest, whether direct or indirect, in the Proposed Diversification.

9. DIRECTORS' STATEMENT

The Board, after having considered the views of the Independent Market Researcher, namely Providence, as well as the relevant aspects of the Proposed Diversification including but not limited to the rationale and prospects, is of the opinion that the Proposed Diversification is in the best interest of the Company.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Diversification will take immediate effect upon obtaining the approval from the shareholders of Matang at a general meeting to be convened.

11. ADVISERS

UOBKH has been appointed as the Adviser for the Proposed Diversification.

In addition, Providence has been appointed as the Independent Market Researcher for the Proposed Diversification.

This announcement is dated 2 October 2019.