

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, solicitor, accountant, bank manager or other professional adviser immediately.

This Circular has been reviewed by UOB Kay Hian Securities (M) Sdn Bhd, being the Adviser to Matang Berhad for the Proposed Diversification (as defined herein).

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**MATANG BERHAD**

(Company No.: 1142377-X)  
(Incorporated in Malaysia)

**CIRCULAR TO SHAREHOLDERS**

**IN RELATION TO THE**

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

**AND**

**EXTRACT OF NOTICE OF ANNUAL GENERAL MEETING**

*Adviser*

**UOBKayHian**

**UOB Kay Hian Securities (M) Sdn Bhd**

(Company No. 194990-K)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The resolution in respect of the Proposed Diversification will be tabled at the forthcoming Fifth Annual General Meeting ("AGM") of Matang Berhad ("Company"). The Notice of the AGM together with the Form of Proxy are enclosed in the Annual Report of the Company for the financial year ended 30 June 2019.

Last date and time for lodging the Proxy Form : Sunday, 24 November 2019 at 2.30 p.m.

Address to lodge the Proxy Form : Share Registrar's Office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur

Date and time of the AGM : Tuesday, 26 November 2019 at 2.30 p.m.

Venue of the AGM : Auditorium, 3<sup>rd</sup> Floor, Wisma MCA, 163, Jalan Ampang, 50450 Kuala Lumpur

This Circular is dated 29 October 2019

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## DEFINITIONS

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Except where the context otherwise requires, the following definitions shall apply throughout this Circular:-

|                               |   |
|-------------------------------|---|
| "Act"                         | : The Companies Act, 2016   |
| "AGM"                         | : Annual General Meeting  |
| "Board"                       | : The Board of Directors of Matang  |
| "Bursa Securities"            | : Bursa Malaysia Securities Berhad (Company No.: 635998-W)  |
| "Director(s)"                 | : The director(s) of Matang and shall have the meaning given in Section 2(1) of the Capital Markets And Services Act 2007 and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon:-<br><br><ul style="list-style-type: none"><li>i. a director of the listed issuer, its subsidiary or holding company; or</li><li>ii. a chief executive of the listed issuer, its subsidiary or holding company</li></ul>   |
| "Durian Business"             | : Ownership, operation and management of durian plantation, processing, production and distribution of durian, and any related downstream business activities. The Durian Business entails, amongst others, planting, harvesting, transportation, processing, marketing, sales and distribution of the durian fruits, as well as other downstream related business activities associated with the Durian Business including but not limited to further processing of durian into various processed products and by-products such as frozen durian paste or mix paste, seedless pulps and confectioneries (i.e. snacks, cakes, candies etc), to name a few |
| "FFB"                         | : Fresh fruit bunches   |
| "FYE"                         | : Financial year ended/ ending  |
| "IMR Report"                  | : Independent market research report dated 2 October 2019 on the durian industry in Malaysia, the salient information of which are set out in Section 4.2 of this Circular, prepared by Providence  |
| "Listing Requirements"        | : ACE Market Listing Requirements of Bursa Securities   |
| "LPD"                         | : 4 October 2019, being the latest practicable date prior to the printing and despatch of this Circular   |
| "Matang" or the "Company"     | : Matang Berhad (Company No.: 1142377-X)  |
| "Matang Group" or the "Group" | : Matang and its subsidiary companies, collectively   |
| "NA"                          | : Net assets  |
| "PAT"                         | : Profit after taxation   |
| "Proposed Diversification"    | : Proposed diversification of the existing principal activities of Matang Group to include Durian Business  |

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**DEFINITIONS (CONT'D)**

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|   |   |  |
|---|---|--|
| "Providence" or the "Independent Market Researcher" | : | Providence Strategic Partners Sdn Bhd (Company No.: 1238910-A) |
| "RM" and "sen"                                      | : | Ringgit Malaysia and cent, respectively                        |
| "UOBKH" or the "Adviser"                            | : | UOB Kay Hian Securities (M) Sdn Bhd (Company No.: 194990-K)    |
| "USD"   | : | United States Dollar   |

Unless otherwise stated and wherever applicable, the amount represented in this Circular has been rounded to the nearest whole cent, for ease of reference.

Words incorporating the singular shall, where applicable include the plural and vice versa. Words incorporating the masculine gender shall where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

Certain statements in this Circular may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by our Board after due enquiry, which are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Circular should not be regarded as a representation or warranty that our Group's plans and objectives will be achieved. Shareholders should not place undue reliance on such forward-looking statement, and we do not undertake any obligation to update publicly or revise any forward-looking statements.

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**TABLE OF CONTENTS**

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|  | <b>PAGE</b>     |
|--|-----------------|
| <b>LETTER TO THE SHAREHOLDERS OF MATANG IN RELATION TO THE PROPOSED DIVERSIFICATION CONTAINING:-</b> |                 |
| 1. INTRODUCTION  | 1               |
| 2. DETAILS OF THE PROPOSED DIVERSIFICATION   | 2               |
| 3. RATIONALE FOR THE PROPOSED DIVERSIFICATION  | 4               |
| 4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS OF THE PROPOSED DIVERSIFICATION                          | 5               |
| 5. RISK FACTORS  | 8               |
| 6. FINANCIAL EFFECTS OF THE PROPOSED DIVERSIFICATION   | 9               |
| 7. APPROVALS REQUIRED/ OBTAINED  | 10              |
| 8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED TO THEM                      | 10              |
| 9. ESTIMATED TIMEFRAME FOR COMPLETION  | 10              |
| 10. PROPOSALS ANNOUNCED BUT PENDING COMPLETION   | 10              |
| 11. DIRECTORS' STATEMENT AND RECOMMENDATION  | 10              |
| 12. AGM  | 11              |
| 13. FURTHER INFORMATION  | 11              |
| <b>APPENDIX</b>  |                 |
| I. FURTHER INFORMATION   | 12              |
| <b>EXTRACT OF NOTICE OF AGM</b>  | <b>ENCLOSED</b> |



**MATANG BERHAD**  
(Company No.: 1142377-X)  
(Incorporated in Malaysia)

**Registered Office**

Unit 30-01, Level 30, Tower A  
Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur

29 October 2019

**Board of Directors**

Datuk Kiat Swee Sung (*Executive Deputy Chairman*)  
Dato' Eng Cheng Guan (*Executive Director*)  
Datuk Ir Low Ah Keong (*Executive Director*)  
Dato' Ng Keng Heng (*Executive Director*)

Dato' Foong Chee Meng (*Independent Non-Executive Director*)  
Lew Weng Ho (*Independent Non-Executive Director*)  
Yeo Kwee Kwang (*Independent Non-Executive Director*)  
Tew Boon Chin (*Independent Non-Executive Director*)

Datuk Tan Teck Poh @ Tan Ah Too (*Non-Independent Non-Executive Director*)  
Datuk Teoh Sew Hock (*Non-Independent Non-Executive Director*)  
Lau Liang Fook (*Non-Independent Non-Executive Director*)  
Lim Chin Hock (*Non-Independent Non-Executive Director*)

**To: The Shareholders of Matang**

Dear Sir/ Madam,

**PROPOSED DIVERSIFICATION**

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**1. INTRODUCTION**

On 2 October 2019, UOBKH had on behalf of the Board, announced that the Company had proposed to undertake the diversification of the Group existing principal activities to include Durian Business, which entails, amongst others, planting, harvesting, transportation, processing, marketing, sales and distribution of the durian fruits, as well as other related downstream business activities associated with the Durian Business including but not limited to further processing of durian into various processed products and by-products such as frozen durian paste or mix paste, seedless pulps and confectioneries (i.e. snacks, cakes, candies etc), to name a few.

**THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF MATANG WITH THE RELEVANT INFORMATION ON THE PROPOSED DIVERSIFICATION AS WELL AS TO SEEK THE APPROVAL FROM THE SHAREHOLDERS OF MATANG FOR THE RESOLUTION PERTAINING TO THE PROPOSED DIVERSIFICATION TO BE TABLED AT THE FORTHCOMING AGM OF THE COMPANY. THE NOTICE OF THE AGM AND THE PROXY FORM ARE ENCLOSED IN THE ANNUAL REPORT OF THE COMPANY FOR THE FYE 30 JUNE 2019.**

**SHAREHOLDERS OF MATANG ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDIX CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED DIVERSIFICATION TO BE TABLED AT THE FORTHCOMING AGM OF THE COMPANY.**

**2. DETAILS OF THE PROPOSED DIVERSIFICATION**

Currently, Matang Group is principally involved in the management of oil palm plantation, sale of 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 FYE 30 June 2019 is as follows:-

|   | <----- Audited -----> |                  |                  |
|---|-----------------------|------------------|------------------|
|   | FYE 30 June 2017      | FYE 30 June 2018 | FYE 30 June 2019 |
|   | RM'000                | RM'000           | RM'000           |
| Revenue                                     | 10,204                | 12,641           | 9,749            |
| 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 Circular 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, planting, 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, as at the LPD, 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 estimates that a total investment capital required for the Durian Business on the Identified Land shall be approximately RM5 million over 5 years, which shall be funded through internally generated funds. The said capital required will be utilised for amongst others, earthwork and infrastructure work, purchase of new equipment, purchase of seedlings/ materials, planting as well as field upkeep and maintenance. After the planting 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.

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 result in a diversion of 25% or more of the 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 Durian Business falls into the overall scheme of business of the Group in plantation sector in particular, the oil palm plantation which the Group has over 20 years of experience in managing and operating. 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. Please refer to Section 2.1 of this Circular for the background information on 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, to be comprised of new recruits of one (1) manager and one (1) supervisor, will be put in place in the first quarter of 2020 specifically for the management of durian plantation together with the hiring of sufficient field workers and also the engagement of suitable consultant(s) and/ or third party contractor(s) in areas necessary for the operation of the Durian Business.

Apart from the dedicated management team for Durian Business as mentioned above, the Group has also identified Encik Mohd Syahniza bin Bahadun ("En Syahniza"), who is currently the Estate Manager for the Group's oil palm plantation, to assist in overseeing and managing the overall administrative functions of the entire estate of Matang comprising both oil palm and durian plantation. Please refer to Section 2.2 of this Circular for the background information on En Syahniza.

## **2.1 Datuk Teoh**

Datuk Teoh, a Malaysian aged 50, is the Non-Independent Non-Executive Director of Matang. He was appointed to the Board on 1 September 2015. He attended Campbell University, United States, where he obtained a Bachelor of Science Degree in 1994.

Datuk Teoh is a businessman whose family-owned business comprise manufacturing, property, and food and beverage businesses in Johor. He began his career in 1995 as Managing Director of Local Basic Sdn Bhd, a family-owned business which is involved in manufacturing, assembly and sale of bicycle components, electrical appliances and components in Gelang Patah, Johor.

Amongst others, he held directorships in Success Service & Maintenance Sdn Bhd, a company involved in the servicing and maintenance of motor vehicles, and Success Local Development Sdn Bhd, a property development firm, which invested in land development in Kota Iskandar, Nusajaya, Johor. In 2006, he established Southern Birdnests Sdn Bhd, a company involved in the farming of swiftlet bird nests, and subsequently in 2008, he established Just Birdnest Sdn Bhd, a company involved in the collection, processing and marketing of bird nest products as well as restaurant operation.

Later in 2011, he was appointed as a Non-Executive Director of Profit Composite Sdn Bhd, a company involved in property development. In 2013, he established Success E Hotel Sdn Bhd, a budget hotel management company and was appointed as a Non-Executive Director. In 2014, he established Local Holdings Sdn Bhd, an investment holding company, and was appointed as an Executive Director. In the same year, he established Success Local Management Sdn Bhd, a company involved in property investment and the rental of hostels and was appointed as a Non-Executive Director.

In addition, together with his family members, Datuk Teoh also owns and manages durian plantation located in Johor which has been in operation for 5 years and has undertaken contract farming for various durian plantations for more than 10 years.

## **2.2 En Syahniza**

En Syahniza, a Malaysian aged 37, is the Estate Manager of Matang Group's oil palm plantation. He joined the Group in January 2019 and has since played a key role in the estate management of the Group.

In 2005, he graduated with a Bachelor of Science Bioindustry (Agriculture) from Universiti Putra Malaysia. Prior to joining the Group, he worked for Tradewinds Plantation Berhad ("Tradewinds") for approximately 11 years, and his latest position held was the Estate Manager for Tradewind's Bukit Kledek and Gadek Estates in Melaka.

En Syahniza shall assist to oversee and manage the overall administrative functions of the entire estate of Matang in District of Ledang and District of Segamat, Johor comprising both oil palm and durian plantation.

## **3. RATIONALE FOR THE PROPOSED DIVERSIFICATION**

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 Circular, 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, 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. According to the IMR Report as set out in Section 4.2 of this Circular, 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.

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 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 OF THE PROPOSED DIVERSIFICATION

### 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, 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 thousand metric tonnes in 2014 to peak at 368.3 thousand metric tonnes in 2015 before dipping to a low of 210.9 thousand metric tonnes in 2017. In 2018, the production of durians saw improvement and rose to 341.3 thousand metric tonnes, which registered a year-on-year growth rate of 61.8% compared to the production volume of 210.9 thousand metric tonnes in 2017. The said growth was mainly attributable to the long hot weather and heavy rainfall in 2018 which contributed to the increase in harvest of durians, even in the off season. According to the Department of Agriculture Malaysia, durian production in 2019 is estimated to reach 348.2 thousand metric tonnes from an estimated planted area of 72.5 thousand hectares.

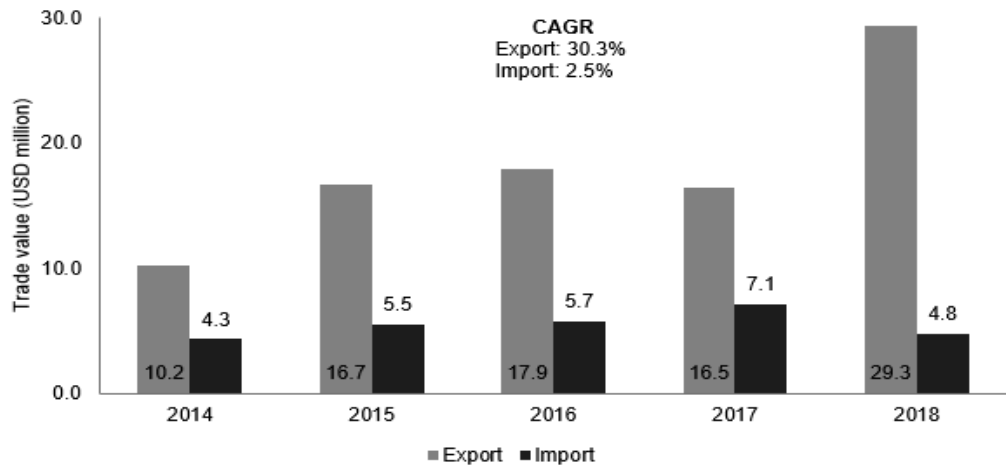
Weather plays a vital role in the quality and quantity of fruits as durian trees need sufficient water to absorb nutrients from the ground. The drop in production in 2016 was a result of the prolonged hot and dry weather from January to April, causing unripe fruits to fall from the trees due to shortage 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 thousand metric tonnes in 2018 behind Pahang's production of 89.9 thousand 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 thousand metric tonnes) in 2014 to USD29.3 million (23.4 thousand 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 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: IMR Report prepared by 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 Circular, 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 management personnels**

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 OF THE PROPOSED DIVERSIFICATION**

## **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**

As set out in Section 2 of this Circular and barring any unforeseen circumstances, the Durian Business on the Identified Land may contribute to the future earnings of the Group in 2025-2026 in view that the gestation period from planting to durian fruiting can typically span over 5-6 years. As such, the Proposed Diversification is not expected to have any material effect on the earnings of the Group for the FYE 30 June 2020. In this respect, the Proposed Diversification may contribute positively to the future earnings of the Group in the long run as and when the durian fruits are ready for harvesting.

## **6.3. 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/ OBTAINED**

The Proposed Diversification is subject to the following approvals:-

- i. The shareholders of Matang at forthcoming AGM of the Company; 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. 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 the forthcoming AGM of the Company.

## **10. PROPOSALS ANNOUNCED BUT PENDING COMPLETION**

Save for the Proposed Diversification (being the subject matter in this Circular), the Board is not aware of any other outstanding proposals which have been announced but not yet completed as at the date of this Circular.

## **11. DIRECTORS' STATEMENT AND RECOMMENDATION**

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. Accordingly, the Board recommends that you **VOTE IN FAVOUR** of the resolution pertaining to the Proposed Diversification to be tabled at the forthcoming AGM of the Company.

## **12. AGM**

The AGM, the notice of which is enclosed in the Annual Report of the Company for the FYE 30 June 2019, is scheduled to be held at the Auditorium, 3<sup>rd</sup> Floor, Wisma MCA, 163, Jalan Ampang, 50450 Kuala Lumpur on Tuesday, 26 November 2019, at 2.30 p.m., for the purpose of considering and if thought fit, passing with or without modification, the resolution to give effect to the Proposed Diversification pursuant to the agenda. An extract of the relevant resolution in relation to the Proposed Diversification as set out in the Notice of the Fifth AGM is enclosed in this Circular.

If you are unable to attend, participate, speak and vote in person at the AGM, you are requested to complete, sign and return the enclosed Proxy Form enclosed in the Annual Report of the Company for the FYE 30 June 2019 in accordance with the instructions contained therein, to be deposited at the Share Registrar's Office situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than 48 hours before the stipulated time for holding the AGM or any adjournment thereof. The lodging of the Proxy Form shall not preclude you from attending, participating, speaking and voting in person at the AGM should you subsequently wish to do so.

## **13. FURTHER INFORMATION**

Shareholders are advised to refer to the appendix set out in this Circular for further information.

Yours faithfully,  
For and on behalf of the Board  
**MATANG BERHAD**

**Datuk Ir Low Ah Keong**  
Executive Director



**FURTHER INFORMATION****1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board, and the Directors collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

**2. CONSENT**

UOBKH, being the Adviser for the Proposed Diversification, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

Providence, being the Independent Market Researcher for the Proposed Diversification, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

**3. DECLARATION OF CONFLICT OF INTERESTS**

UOBKH and Providence have given its written confirmation that as at the date of this Circular, there is no situation of conflict of interests that exists or likely to exist in relation to their respective roles as the Adviser and Independent Market Researcher for the Proposed Diversification.

**4. MATERIAL COMMITMENTS**

As at the LPD, the Board is not aware of any material commitments incurred or known to be incurred by the Group, upon becoming enforceable, may have a material impact on the financial results/ position of the Group.

**5. CONTINGENT LIABILITIES**

As at the LPD, the Board is not aware of any other contingent liabilities incurred or known to be incurred which, upon becoming enforceable, may have a material impact on the financial results/ position of the Group.

**6. MATERIAL LITIGATION**

As at the LPD, the Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board is not aware and has no knowledge of any proceedings pending or threatened against the Group, or of any facts likely to give rise to any proceedings, which might materially or adversely affect the financial position or business of the Group.

**7. MATERIAL CONTRACTS**

Matang has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within 2 years immediately preceding the LPD.



## **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of the Company at Unit 30-01, Level 30, Tower A, Vertical Business, Suite Avenue 3, Bangsar South No. 8 Jalan Kerinchi, 59200 Kuala Lumpur during normal business hours from Monday to Friday (except public holidays) from the date of this Circular up to the date of the forthcoming AGM of the Company:-

- i. The Constitution of Matang;
- ii. Audited consolidated financial statements of the Group for the past 2 financial years up to the FYE 30 June 2019;
- iii. The IMR Report; and
- iv. The letters of consent and declaration of conflict of interests referred to in Sections 2 and 3 above, respectively.

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**MATANG BERHAD**  
(Company No.: 1142377-X)  
(Incorporated in Malaysia)

**EXTRACT OF NOTICE OF THE FIFTH ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD AT THE AUDITORIUM, 3<sup>RD</sup> FLOOR, WISMA MCA, 163, JALAN AMPANG, 50450 KUALA LUMPUR ON TUESDAY, 26 NOVEMBER 2019 AT 2.30 P.M.**

**AGENDA 9**

**TO CONSIDER AND IF THOUGHT FIT, TO PASS THE FOLLOWING AS ORDINARY RESOLUTION:**

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

"**THAT**, subject to the approvals of the relevant authorities and/ or parties being obtained, approval be and is hereby given to the Company and its subsidiary companies to diversify its existing principal activities to include Durian Business, which entails, amongst others, planting, harvesting, transportation, processing, marketing, sales and distribution of the durian fruits, as well as other related downstream business activities associated with the Durian Business;

**AND THAT** the Board be and is hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Diversification with full power to assent to any conditions, variations, modifications, and/ or amendments in any manner as may be required or permitted by any relevant authorities and to deal with all matter relating thereto and to take all such steps to do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and give full effect to the Proposed Diversification."