

34TH AGM

SURIA CAPITAL HOLDINGS BERHAD

QUESTIONS / COMMENTS RAISED BY SHAREHOLDER

JOSHUA K. Y. KONG

Questions / Comments from shareholder

Joshua Y. C. Kong

13 May, 2017

1. ***"All ports in Sabah are grouped under the Sabah Ports Authority and fall under the responsibility of the Sabah State Ministry of Communications and Works."*** Official status.

I ask this question last year ---

"But in SCG, according to the Chairman's report, that ministry is not even mentioned while SEDIA and Federal Ministry of Urban Wellbeing, Housing and Local Government were given prominence in the expansion of the Sepanggar Bay Container Port "(SBCP)."

Now it seems that Federal Ministry of Urban Wellbeing, Housing and local Government is no longer involved with the expansion of the SBCP. |

1.1 Why is this so?

1.2 Just to delay further the long overdue expansion of SBCP?

2. The National Cabotage Policy (NCP) introduced in the 1980's was the result of Merchant Shipping Ordinance of Malaya merged with similar Ordinances from Sabah and Sarawak. Once merged, it becomes an Act of Parliament, subsequently under this Act, a rule was introduced requiring all ships plying Malaysia ports must be registered in Malaysia. This also means that any foreign registered vessels cannot on-load and off-load cargoes at Malaysia ports. **The National Cabotage Policy** exists because of this rule. This rule was not passed by Parliament, it was **approved and gazette by the Malaysia Minister of Transport**.

The liberalisation of cabotage regulations for the transshipment of cargo highlights the Malaysian government's commitment in transforming Sepanggar Port into a full-fledged Transshipment Hub of the Far East, said Barisan Nasional (BN) lawmakers.

Deputy Chief Minister, Tan Sri Joseph Pairin Kitingan said the long-debated cabotage restrictions have already been relaxed effective June 2009, allowing foreign-registered vessels to import and export freely to and from Sepanggar Port without requiring any domestic shipping license.

"As a result, ships from anywhere in the world are permitted to enter Sabah directly, however the only major problem is the lack of cargo volume to justify their transportation cost which makes it less cost effective for foreign vessels to travel to Sabah," Pairin said in his reply to Sri Tanjung Assemblyman, Chan Foong Hin in the State Assembly.

2.1 Did Sabah Ports really benefit anything from the "liberalisation" NCP since 2009?

2.2 Would the latest "liberalisation" in June 2017 be a reality and if so what would be the impact on SCG if any?

2.3 Would SCG give a detailed analysis of the impact of NCP for the decades for the performance of Sabah Ports in the following aspects? With the NCP since 1980s we knew that shipping costs "leaped frog" in Sabah trade as sort of "cartel" prevailed against Sabah's interests in the interest of the local shipping owners and associations.

2.3.1 Were the level of port charges since 1980s also influenced by the existence of "cartel"? Please illustrate the level of Sabah ports charges since 1980.

2.3.2 Would Sabah ports charges be revised upwards or downwards with the latest liberalisation of NCP? How would this trend affect the revenue of SCG?

2.3.3 Would major Sabah ports be ready to cater for international cargo liners?

2.3.4 Any other limitations for Sabah Ports not to "leap frog" in performance even after over RM1b capital expenditure in expansion of SBCP, when SCG's almost flat in income from port operations RM218m (2011); RM220m (2012); RM224m (2013); RM235m (2014); RM217m (2015) RM218m (2016).]

3. Dredging of ports

"We are working closely with the port authority to initiate dredging activities to deepen navigable waterways to a further 15 metres to allow bigger ships to dock at Sepanggar Port and increase the number of cargo handling machinery equipment such as cranes, rubber-tyred gantry trains (RTG) and others," Pairin said in 2009.

I asked this question in the first Sabah Ports Forum 2017, and the answer was in the negative.

3.1 In view of increasing pollution and sediment in the coastline on the sea bed, is dredging adequately done regularly in all major ports including KK city harbour in Sabah? This would impact the performance of SCG.

4. Pan Borneo Highway (Sabah & Sarawak)

PBH maybe a long way to completion and whether Sabah Ports can benefit from the expected PBH is still to be seen.

4.1 Has SCG done any prediction/statistics or analysis on the impact of PBH?

5. Non current – trade receivable (Note 18 page 131) note B is vague.

5.1 Please give details of the said project once again and how this amount of RM230,799,000 is arrived at with a schedule? Would this amount be receivable in one sum? It is current as this is due within 2017, isn't it?

6. cash & bank balances since 2011

RM45.528m (2011); RM82.463m (2012); RM121.961m (2013); RM122.465m (2014); RM114.313m (2015); RM60.958m (2016).

6.1 Would like to know if SCG has managed its cash & bank balances and other assets and liabilities to maximise the income wherever and whenever possible? The excessive cash beyond cash flows requirement sitting in the company could be earning income over the years.

7. Managing Director and Chief Finance Officer

7.1 Would the same person holding both key positions for two years cause the company to be compromised in check and balance?

8. Security

8.1 Would the presence of the navy base as expanding in Sepanggar Bay affect the commercial activities of the commercial ships?

8.2 For security reasons, ships plying from Australia to South China and beyond have bypassed Sulu Sea or eastern Sabah and instead use the route on the eastern side of Philippines. Your comment please

QUESTION 1

“All ports in Sabah are grouped under the Sabah Ports Authority and fall under the responsibility of the Sabah State Ministry of Communications and Works.” Official status.

But in Suria, according to the Chairman’s report, that ministry is not even mentioned while SEDIA and Federal Ministry of Urban Wellbeing, Housing and Local Government were given prominence in the expansion of the Sapangar Bay Container Port (SBCP).

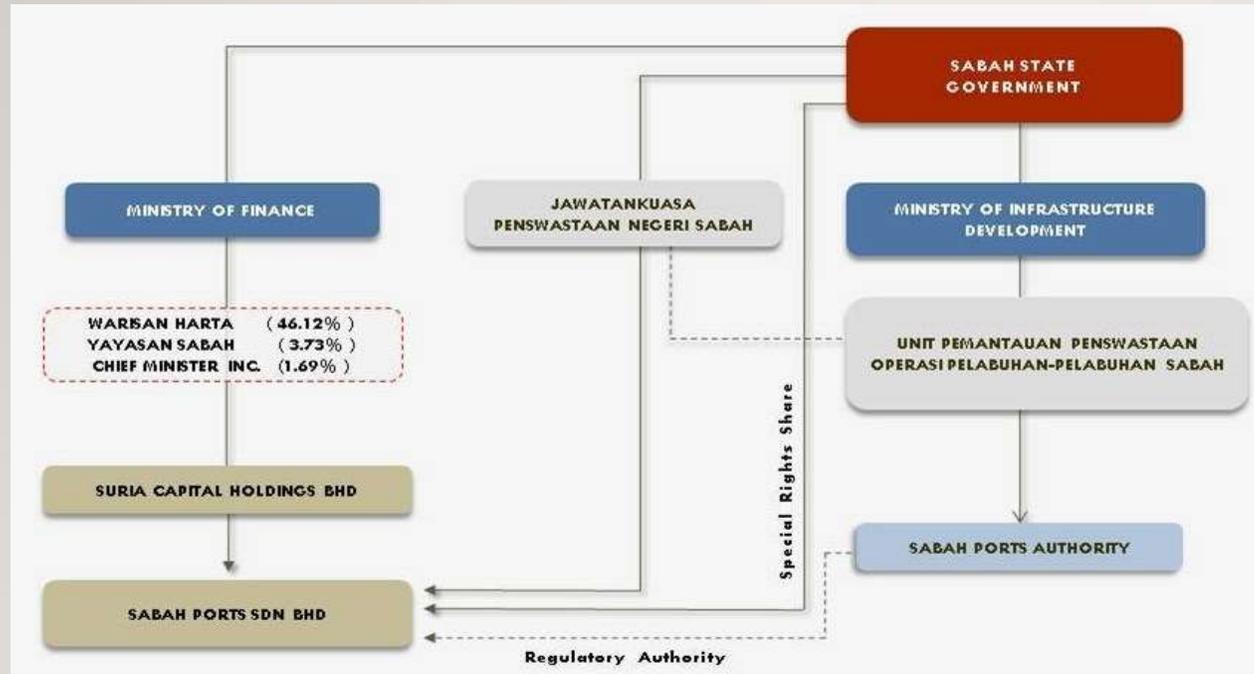
Now it seems that (the Sabah State Ministry) is no longer involved with the expansion of the SBCP.

1.1 Why is this so?

1.2 Just to delay further the long overdue expansion of SBCP?

ANSWER

The set-up structure of Sabah Ports is as follows:



ANSWER (CONT'D)

The Sabah Ports Authority is under the purview of the Sabah State Ministry of Infrastructure Development.

Under the 11th Malaysia Plan on the initiative of the National Blue Ocean Strategy, the Federal Government has allocated RM1.027 billion for developing the Sapangar Bay Container Port into a transshipment hub. The Federal Government has decided that the fund is to be channelled through the Ministry of Urban Wellbeing, Housing and Local Government under the category of “Cities Game Changer”.

The Ministry of Urban Wellbeing, Housing and Local Government is actively involved in overseeing the project and monthly meetings are called for progress update. Concurrently, the Sabah State Ministry of Infrastructure is also being briefed regularly on the progress of the proposed Sapangar Bay expansion project. Up to now, the port master plan and business study have been completed. It is expected that the fund allocation from the Federal Government will help fast-track the implementation of the expansion programme.

QUESTION 2

The National Cabotage Policy (NCP) introduced in the 1980s was the result of Merchant Shipping Ordinance of Malaysia merged with similar Ordinances from Sabah and Sarawak. Once merged, it becomes an Act of Parliament, subsequently under this Act, a rule was introduced requiring all ships plying Malaysian ports must be registered in Malaysia. This also means that any foreign registered vessels cannot on-load and off-load cargoes at Malaysia ports. The National Cabotage Policy exists because of this rule. This rule was not passed by Parliament, it was approved and gazetted by the Malaysian Ministry of Transport.

The liberalisation of cabotage regulations for the transshipment of cargo highlights the Malaysian Government's commitment in transforming Sapangar Port into a full-fledged Transshipment Hub of the Far East, said Barisan Nasional lawmakers.

QUESTION 2 (cont'd)

Deputy Chief Minister, Tan Sri Joseph Pairin Kitingan said the long-debated cabotage restrictions have already been relaxed effective June 2009, allowing foreign-registered vessels to import and export freely to and from Sepanggar Port without requiring any domestic shipping license.

“As a result, ships from anywhere in the world are permitted to enter Sabah directly, however the only major problem is the lack of cargo volume to justify their transportation cost which makes it less cost effective for foreign vessels to travel to Sabah,” Pairin said in his reply to Sri Tanjong Assemblyman, Chan Foong Hin in the State Assembly.

ANSWER

The national cabotage policy introduced on 1 January 1980 limits the transportation of goods and passengers in Malaysian waters and the Exclusive Economic Zone to Malaysian ships with the aim to protect and promote the domestic shipping industry. It was established that **only Malaysian ships may engage in domestic shipping, which is defined as the use of a ship for the shipment of goods or the carriage of passengers from any port or place in Malaysia to another port or place in Malaysia.**

The national cabotage policy restricts foreign vessels from carrying goods/passengers from one domestic port to another **but it does not restrict foreign vessels to call direct at any Malaysian port.** The partial liberalisation of the national cabotage policy on 3 June 2009 further allowed foreign ships to carry containerised transshipment cargo between certain ports in Peninsula Malaysia and East Malaysia.

QUESTION 2 (cont'd)

2.1 Did Sabah Ports really benefit anything from the “liberalisation” NCP since 2009?

2.2 (question addressed in the next slide)

2.3 Would Suria give a detailed analysis of the impact of NCP for the decades for the performance of Sabah Ports in the following aspects? With the NCP since 1980s we knew that shipping costs “leaped frog” in Sabah trade as sort of “cartel” prevailed against Sabah’s interests in the interest of the local shipping owners and associations.

ANSWER

There was no significant impact on Sabah Ports from the liberalisation of the national cabotage policy in 2009. Performance of Sabah Ports depends largely on the cargo volume handled at our ports which is in turn correlated with the economy of the State.

QUESTION 2 (cont'd)

2.2 Would the latest “liberalisation” in June 2017 be a reality and if so what would be the impact on SCG if any?

ANSWER

The further liberalisation of the national cabotage policy which has been announced by the Prime Minister will take effect from 1 June 2017. The details will be announced by the Ministry of Transport in due course. The liberalisation may entice more foreign vessels to call at Sabah ports.

QUESTION 2 (cont'd)

2.3.1 Were the level of port charges since 1980s also influenced by the existence of “cartel”? Please illustrate the level of Sabah ports charges since 1980.

ANSWER

The port charges imposed by Sabah Ports are in accordance with the Sabah Ports Scale of Dues and Charges 1977 and 1982 (for container). These tariffs were approved by the Sabah State Cabinet. Sabah Ports Sdn. Bhd. is not at liberty to increase the tariffs without the approval of the Government. The present set of tariffs has been in force since 1970's. There has been no change except for some minor rationalisation to include items for new services provided by the ports and deletion of items that are no longer applicable.

QUESTION 2 (cont'd)

2.3.2 Would Sabah Ports charges be revised upwards or downwards with the latest liberalisation of NCP? How would this trend affect the revenue of SCG?

ANSWER

The present set of Sabah Ports charges (tariffs) have been in place since 1970s/1980s. As has been done for several Malaysian ports in recent years, these charges are due for revision to reflect the current cost of port operations.

QUESTION 2 (cont'd)

2.3.3 Would major Sabah ports be ready to cater for international cargo liners?

ANSWER

Sabah Ports receive vessels from the main line operators from time to time. The major ports at Sapangar, Sandakan and Tawau are equipped with sufficient cargo and container handling equipment for the handling of goods which may come by due to the liberalisation of the national cabotage policy effective 1 June 2017. We have sufficient Ship-To-Shore (STS) cranes and mobile cranes at SBCP including 9 RTGs and two additional STS cranes to be delivered by end of this year. The ports of Sandakan and Tawau are equipped with 2 mobile harbour cranes and there are sufficient transfer and yard equipment to handle the present and immediate future cargo volume. The upcoming upgrading of infrastructure and facilities through the various port expansion projects (SBCP, SBCCT, SDK wharf) will further enhance Sabah Ports' capacity to handle more international cargo liners in the near future.

QUESTION 2 (cont'd)

2.3.4 Any other limitations for Sabah Ports not to “leap frog” in performance even after over RM1b capital expenditure in expansion of SBCP, when SCG’s almost flat in income from port operations RM218m (2011); RM220m (2012); RM224m (2013); RM235m (2014); RM217m (2015) RM218m (2016).]

ANSWER

The RM1.027 billion fund is a grant from the Federal Government for the transshipment hub development at Sapangar. The expansion project has long gestational period and hence there will not be any immediate additional income arising from this initiative.

The performance of Sabah Ports depends very much on the cargo volume handled and this is largely pegged to the economy activities in the State. The barriers to the growth of cargo volume are the limitations in cargo generating activities from the local industries, insufficient infrastructure and lack of foreign investments. The Government has appointed a consultant to formulate strategies and business plans to help make SBCP a transshipment hub and to increase the throughput of local cargo. However, the impact will not be immediate as these initiatives will take medium to long term to materialize.

QUESTION 3

DREDGING OF PORTS

“We are working closely with the port authority to initiate dredging activities to deepen navigable waterways to a further 15 metres to allow bigger ships to dock at Sepanggar Port and increase the number of cargo handling machinery equipment such as cranes, rubber-tyred gantry trains (RTG) and others,” Pairin said in 2009.

3.1 In view of increasing pollution and sediment in the coastline on the sea bed, is dredging adequately done regularly in all major ports including KK city harbour in Sabah? This would impact the performance of SuriaGroup.

ANSWER

Maintenance dredging is carried out every three to four years at the wharf side of Tawau Port due to silting. There has been no need for regular dredging at the other Sabah ports, including KK Port.

QUESTION 4

PAN BORNEO HIGHWAY (SABAH & SARAWAK)

PBH maybe a long way to completion and whether Sabah Ports can benefit from the expected PBH is still to be seen.

4.1 Has SCG done any prediction/statistics or analysis on the impact of PBH?

ANSWER

Once the Pan Borneo Highway Project is commenced, it is expected to have positive impact to Suria Group through potential throughput import of the road construction materials. In the longer term, once completed, there shall be positive impacts on the ports as more export cargo can be consolidated and transported by road to feed SBCP. The road network which covers 730km will improve the connectivity to our ports.

QUESTION 5

NON-CURRENT TRADE RECEIVABLES

(note 18 page 131, note B is vague)

5.1 Please give details of the said project once again and how this amount of RM230,799,000 is arrived at with a schedule? Would this amount be receivable in one sum? It is current as this is due within 2017, isn't it?

ANSWER

The Jesselton Quay Project is a joint venture property development project between Suria and SBC Corporation Berhad. It has a minimum Net Saleable Value (“NSV”) of RM1.8 billion and Suria’s entitlement is 18% of the NSV or a minimum of RM324 million.

The total amount due from SBC as at 31/12/2016 was RM250,322,000, representing the Net Present Value of Suria’s total entitlement of RM324,000,000.

The breakdown is as follows:

- (a) Current = RM19,523,000 (receivable within 12 months)
- (b) Non-current = RM230,799,000 (to be paid in stages based on the payment schedule as per the JVA).

PAYMENT SCHEDULE AS PER JVA

	Minimum guaranteed amount/ MGA (RM 'million)	Cumulative payment of MGA (RM 'million)	Agreed milestone/ NSV achieved	Due date for payment	Amount (RM 'million)
1 st payment		2.00*		On the execution of this Agreement	2.00
2 nd payment		82.00*		Within 14 days from the presentation date of the instrument of charge for the creation of the Third Party Charge under Clause 6.5 (provided that a letter of undertaking is given in favour of SURIA CAPITAL to ensure that the 2 nd payment is made after the presentation of the 3 rd party charge)	80.00
3 rd payment	10.00	92.00	5%	In the 2 nd anniversary after the 2 nd payment and the cut off for claims falling on the date being 3 months preceding this due date for payment	The MGA (cumulative of RM92.00 million) or the Agreed Milestone, whichever is higher
4 th payment	26.00	118.00	6%	In the 3 rd anniversary after the 2 nd payment and the cut off for claims falling on the date being 3 months preceding this due date for payment	The MGA (cumulative of RM118.00 million) or the Agreed Milestone, whichever is higher
5 th payment	47.00	165.00	7%	In the 4 th anniversary after the 2 nd payment and the cut off for claims falling on the date being 3 months preceding this due date for payment	The MGA (cumulative of RM165.00 million) or the Agreed Milestone, whichever is higher
6 th payment	47.00	212.00	11%	In the 5 th anniversary after the 2 nd payment and the cut off for claims falling on the date being 3 months preceding this due date for payment	The MGA (cumulative of RM212.00 million) or the Agreed Milestone, whichever is higher
7 th payment			14%	In the 6 th anniversary after the 2 nd payment and the cut off for claims falling on the date being 3 months preceding this due date for payment	Based on the Agreed Milestone
8 th payment		324.00	18%	In the 7 th anniversary after the 2 nd payment and the cut off for claims falling on the date being 3 months preceding this due date for payment	The balance of the 18% of the NSV or the MGA (cumulative of RM324.00 million), whichever is higher

QUESTION 6

CASH & BANK BALANCES SINCE 2011

RM45.528m (2011); RM82.463m (2012); RM121.961m (2013);
RM122.465m (2014); RM114.313m (2015); RM60.958m (2016).

6.1 Would like to know if SCG has managed its cash & bank balances and other assets and liabilities to maximise the income wherever and whenever possible? The excessive cash beyond cash flows requirement sitting in the company could be earning income over the years.

ANSWER

SuriaGroup is investing the surplus cash in fixed deposits and earning interest income. Through auto placement facility, we also earn overnight interest from the balance sitting in our current accounts. In recent years, we have diversified our investment of surplus cash into short-term investment securities which give relatively higher returns with minimal risk.

QUESTION 7

MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER

7.1 Would the same person holding both key positions for two years cause the company be compromised in check and balance?

ANSWER

The position of the Chief Financial Officer is still vacant and the company is in the midst of finding a suitable candidate to fill the vacancy. Meanwhile at the Group level, we have two Senior Finance Managers and two Finance Managers to assist in the Group's financial matters.

Further, we have documented procurement procedures with defined authority limits in place for internal control and check and balance purposes.

QUESTION 8

SECURITY

8.1 Would the presence of the navy base as expanding in Sapangar Bay affect the commercial activities of the commercial ships?

8.2 For security reasons, ships plying from Australia to South China and beyond have bypassed Sulu Sea or eastern Sabah and instead use the route on the eastern side of Philippines.

ANSWER

The presence of the navy base at Sapangar Bay does not affect the commercial activities of the ports.

The ports are still receiving regular cruise ships from Australia.

THANK YOU
