

Sabah TLAS Audit Report Principles 5 & 6

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| Organisation | Tenant: Gmelina Jaya Sdn. Bhd. (270243-V) Mill: Hap Seng Property Investment Sdn. Bhd. (183641-A) | Reference # | GFSSBH 004-062 |
| Contact Person | Habsah Paduwai (Hap Seng) Rusna Lasennang (Gmelina Jaya) | Assessment Date | 25/06/2019 |
| Office Address | P.O. Box No.27, 91007 Tawau, Sabah, Malaysia. | Date close out | - |
| Mill Address | TB2109 – 2110, Mile 1, Jalan Tg. Batu, 91000 Tawau, Sabah, Malaysia. | Telephone | +6089 761 590 +6089 922 157 |
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| | | Approved By | Dr. Kevin Grace |

Statements

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|--------------------------|--------------|------------------------|--------------|
| Audit Statement # | GFS 116 WTP | | |
| Issuance Date | 01 July 2019 | Expiration Date | 30 June 2020 |

Assessment Details

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|----------------------------|--|
| Company Type | Sawmill |
| Scope of Assessment | Hap Seng Property Investment Sdn. Bhd. (Gmelina Jaya Sdn. Bhd.) |
| Product Group | Sawn timber |
| Source of Material | Sabah, Malaysia. |
| Species | <i>Dryobalanops spp.</i> (Kapur), <i>Dipterocarpus spp.</i> (Keruing), <i>Koompassia malaccensis</i> (Impas), <i>Parashorea spp.</i> (White seraya), <i>Shorea spp.</i> (Red seraya, Yellow seraya, Melapi), <i>Shorea pauciflora</i> (Oba suluk), <i>Neolamarckia cadamba</i> (Laran), <i>Duabanga moluccana</i> (Magas), <i>Octomeles sumatrana</i> (Binuang), <i>Alstonia spp.</i> (Pulai), <i>Nauclea spp. / Neonauclea spp.</i> (Bangkal), <i>Annonaceae spp.</i> (Karai), <i>Eugenia spp.</i> (Obah), <i>Sindora beccariana</i> (Sepetir), Lauraceae (Medang), Lithocarpus & Quercus (Mempening), Myristicaceae (Darah-darah), <i>Dillenia spp.</i> (Simpur), <i>Cotylelobium spp.</i> (Resak batu), <i>Cratoxylum arborescens</i> (Serungan), <i>Hopea sangal</i> (Gagil), <i>Eusideroxylon zwageri</i> (Belian), <i>Eucalyptus pellita</i> , Prerospermum (Bayor), <i>Koompassia excelsa</i> (Mengaris), <i>Tristaniopsis merguensis</i> (Pelawan-pelawan), <i>Dialium indum</i> (KerANJI), Annonaceae (Pisang-pisang), <i>Castanopsis motleyana</i> (Berangan), <i>Durio spp.</i> (Durian), <i>Nephelium lappaceum</i> (Rambutan), Petai, Assam and Perapat Hutan |
| Lead Assessor | Siti Radiah Mohamad |
| Assessor(s) | - |
| FDS Staff | PH Ambrose James Gipilon (PPM Tg. Batu Apas Balung) |

Terms of Assessment

The scope of the evaluation is to verify compliance of the Gmelina Jaya Sdn. Bhd. to the criteria within the Sabah Timber Legality Assurance System (TLAS) Principle 5 - Mill Operations and Principle 6 -Trade and Customs standards. Compliance is defined when the organization demonstrates that there is no non-compliance to any applicable criteria. Non-compliance to the Sabah Legality Standard occurs when the organization does not comply with 1 or more criteria. Non-compliance must be formally addressed prior to certification or within 2 months following a surveillance assessment.

Limitations of Assessment

The information presented in this report is based on documentation and other information presented by the client and observations made during the field verification under the assessment. Auditor's reporting of information presented by the client are taken as accurate, unless evaluated differently through the observations made during the assessment. All information presented in the report is accurate and complete to the best of knowledge of GFS.

Background Information:

Hap Seng Property Investment Sdn. Bhd. (Hap Seng Property Investment) is registered in Kuala Lumpur, Malaysia with registration # 183641-A. The company's premises sawmill equipment and machinery are rented to Gmelina Jaya Sdn. Bhd. (Sawmill A / Gmelina Jaya) to provide sawing, warehouse, and export service. Finished products are sold locally and exported to the Peninsular Malaysia only.

The previous assessment was conducted in June 2018 that resulted in 1 gap(s) and 0 observation(s) (Report #: G162-434).

Associated Organizations & Subcontractors:

Hap Seng Property Investment premises rented to Gmelina Jaya for sawn timber production.

Description of the Supply Chain:

From June 2018 to May 2019, Gmelina Jaya purchased raw materials from the suppliers as below:

| Supplier | License | Raw Material | Location | FDS TLAS-CC (Expiry Date) | GFS Audit Statement # (Expiry Date) |
|---|--|--------------------------------------|---------------|---------------------------------|-------------------------------------|
| Amirudin Mohd. Damit & 23 Peserta | JP(NSO)003/2016(F1) | Round logs | Sook | FDS(SLS)057/2017 (30/11/2018)* | GFS 124 LVS (30/11/2018)* |
| Gold Rank Sdn. Bhd. | JP(T)TW001/10(X04) | Sawn timber | Tawau | FDS(SCS)006/2019 (31/03/2020) | GFS 010 WTP 31/03/2020 |
| Sherwood Timber Processing Sdn. Bhd. (Megah Jadi Sdn. Bhd.) | JP(T)TW004/00(X02)R | Sawn timber | Tawau | Non Compliance | Non Compliance |
| Rakyat Berjaya Sdn. Bhd. (Asiatic Organic Farm Sdn. Bhd.) | SFMLA 09/97: TWU 02/17 | Round logs | Kalabakan | Non Compliance | Non Compliance |
| Zillion Fortune Sdn. Bhd. | SFMLA 09/97: TWU 02/15 | Round logs | Serudong | FDS(SLS)011/2018 (31/03/2019)** | GFS 095 LVS (31/03/2020) |
| Sapulut Forest Development Sdn. Bhd. | SFMLA04/97: KGU11/16, TWU08/10, KGU18/16, TWU06/11, KGU12/16, TWU48/07, KGU02/17 | Round logs | Tibow | FDS(SLS)045/2018 (31/08/2019) | GFS 025 LVS (31/08/2019) |
| Lusera Sdn. Bhd. | JP(K)KK001/02(X26) | Sawn timber (Belian) | Kota Kinabalu | FDS(SCS)078/2018 (31/07/2019) | GFS 114 WTP (31/07/2019) |
| Sabah Softwood Sdn. Bhd. | JP(T)TW002/11(B01) | Plantation Logs (Eucalyptus Pellita) | Tawau | FDS(SCS)093/2018 (31/08/2019) | GFS 160 WTP (31/08/2019) |
| Bornion Timber Sdn. Bhd. | SFMLA03/1997: KGU 13/17, KGU 08/15 | Round logs | Sook | FDS(SLS)044/2018 (31/08/2019) | GFS 054 WTP (31/08/2019) |
| Tawau Kilning and Moulding Sdn. Bhd. | JP(T)TW001/14(X04) | Sawn timber | Tawau | FDS(SCS)008/2018 (31/01/2019)** | GFS 036 WTP (30/04/2020) |
| Selera Indah Sdn. Bhd. | JP(T)TW001/00(X50)R | Sawn timber | Tawau | Non Compliance | Non compliance |
| Fook Ngiap Sawmill Sdn. Bhd. | JP(T)TW002/00(X17)R FDS Log auction: Bountiful Returns Sdn. Bhd. | Round logs | Tawau | - | - |

Note: *Operation completed.

**FDS to update their website.

Summary Results:

(Major gap = 0, Minor gap = 1, Observation = 0)

| GAPs: | | | | |
|-------|------|-----------|--------|-------------|
| GAP # | Type | Checklist | Status | Description |

| | | | | |
|----------|-------|-------|--------|--|
| 005/2017 | Minor | 5.2.4 | Closed | <p>June 2018: Gmelina Jaya CoC manual lacks reference to several key elements:</p> <ul style="list-style-type: none"> • Purchasing / Receiving of logs (Identification of Sabah TLAS Compliant Raw Material). • Identification of WIP and finished goods by batch number and TLAS status • Sales and delivery documents for Sabah TLAS products. <p>June 2019: The COC procedure was updated to include key elements such as Purchasing and Receiving, Production control, Sales and Administration and observed implemented.</p> |
| 009/2019 | Minor | 5.1.2 | Minor | The total volume of monthly logs arrival and logs input recorded in Appendix 1 from June 2018 to May 2019 did not correspond to the actual total of arrival and production volume by both companies (Gmelina Jaya and Chuan Huan Trading). |

*Major = Non-Compliance

| Obs # | Checklist | Description |
|-------|-----------|-------------|
| - | - | - |

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| Highlights of Close-Out Visit (if applicable) | Date - |
| Not applicable. | |

| Recommendations |
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| <p>Gmelina Jaya Sdn. Bhd. has demonstrated compliance with the Sabah Standard Principles 5-6 for Chain of Custody and is recommended to receive a GFS Audit Statement and STCC from FDS.</p> <p>Gap(s)/Observation(s) identified in this assessment should be addressed before the next surveillance visit. Action required to close the gap(s)/observation(s) includes:</p> <p>Gap 009/2019 (Minor) – Checklist 5.1.2: Hap Seng Property Investment shall report the actual monthly logs arrival and log input by its tenants. The Appendix shall be revised and submitted to FDS.</p> <p>The next surveillance visit is scheduled in April 2020.</p> |

End of Summary Report