

AsiaTeak Group

Frequently Asked Questions regarding the recently announced Change of Terms and Conditions of Sale

What went wrong and why is this new arrangement necessary?

AsiaTeak, has in the past, relied on income from sales for on-going maintenance of our plantations. However, our sales performance has been very poor over the last few years and despite our best efforts to revive this we have not been successful. This has led to a shortage of funds for plantation maintenance and without an alternative source of funding we face the real danger of losing the actual tree assets. Without proper maintenance, it would not take long for the Sri Lanka plantations to fall into disrepair. In Thailand we are likely to be pursued for unpaid maintenance costs, which could lead to seizure of the plantations. This has been compounded by the fact that, as we face insolvency, we are obliged not to bring new clients into an already bad situation. Fortunately we have secured a new investor to fund all future plantation maintenance and other critical company overheads until the harvest of trees, in exchange for a 20% cut of the value of the trees when harvested. This will completely underwrite the company's future financial liability by releasing the pressure on sales performance. It will prevent us from defaulting on our maintenance payments and also safeguards the client's assets.

Who is the Funder?

The identity of the funder is subject to non-disclosure. However, I can tell you that he is an existing client of AsiaTeak who has the financial ability to provide the high level of investment required to underwrite this arrangement. He has visited all of our plantations in both Thailand and Sri Lanka and has a good understanding of forestry methods, costs and the new business model that we will be operating under.

Why is this new arrangement better than AsiaTeak going into Administration or Liquidation?

The new arrangement secures AsiaTeak's ability to maintain our plantations until harvest time. Whilst the additional 20% fee downgrades the eventual return to our clients, it does protect the assets and leaves them in the ownership of the clients. If the company goes into administration, a liquidator would wind up the company, the clients would become creditors and the trees would be offered for sale as distressed assets. In this case the pay-out would be far lower than the new arrangement would achieve, possibly only 10 – 20% of the amount invested.

How can I be sure that the new funding will cover all future maintenance costs and I will not be asked to pay more?

We have a fixed price maintenance contract for our trees in Thailand so we know exactly how much we will need until harvest time. In Sri Lanka we have been maintaining our sites ourselves for 10 years so we are very confident of the on-going costs. Plus, in both cases, the funding provided has a level of contingency built in.

Why is the deadline so urgent?

AsiaTeak currently only has funds in place to maintain our plantations until the end of August 2019. If we fail to pay our staff and other maintenance contractors, the plantations will quickly fall into disrepair and could be subject to re-possession. Therefore it is vital that we get this new funding in place ASAP.

What percentage of clients do you need to complete this new arrangement?

The funder is very keen to ensure that everyone is properly informed and in agreement with this new arrangement. Therefore he has insisted that I contact each client to gain his or her approval. He is looking for 100% acceptance.

What if people don't respond can you assume acceptance?

Yes, we can but we would much rather achieve this by receiving back the official signed Form of Acceptance. We have set a deadline to receive these and will chase up any that do not respond. For this reason we would urge any client who has not yet sent back the form to do as ASAP.

What happens if I, or others, do not accept, are there any alternatives?

Due to the benefit of this arrangement over liquidation of the company, we are hoping for 100% acceptance. However, if we don't get a satisfactory level of acceptance according to the funder, he won't proceed and we will be forced into administration. We will not allow a situation where some clients get a better deal than others.

Why do you need to extend the harvest date and why can I not decide on my own harvest date?

One of the conditions of the new funder is that he retains the decision as to when to harvest the trees within a specific harvest window. The reason for this is to optimise the return from his investment by selling the trees at the earliest date that achieves a high level of maturity and value. This policy will also optimise the return to clients but the downside is that you will no longer be allowed to select the harvest date.

What about the allocation of specific trees to my order and who is the legal owner of the trees?

AsiaTeak Group (Hong Kong) Ltd. (a subsidiary of Anglo Asia Forestry Co. Ltd.) is the legal owner of all the plantations and trees, in both Thailand and Sri Lanka by way of either full freehold title or a properly registered lease. Currently we have not allocated specific trees to specific orders. The reason for this is that we first have to thin out the poor trees to leave only the good "Final Harvest" trees. This has already been done in Thailand and is due to be completed in Sri Lanka over the next 3 to 5 years. Once this is done we can allocate specific trees to specific orders. For Thailand, we will do so shortly after the new agreement, if approved, is in place

Can I sell my trees now?

No, we are not in a position to buy back your trees or arrange a sale as we are currently prevented from trading due to imminent insolvency. If we get the acceptance level we need to complete this new arrangement we will be allowed to resume trading and, whilst we would not envisage returning to general sales, we may be able to help current customers resell their trees.

What is the projected value of the trees?

We have been advised not to offer any projections of size, yield or value and that in future an independent specialist should be appointed to provide all projections and valuations. Subject to this re-financing plan being approved by all clients, the company, the new funder and the Trustee, will jointly appoint a specialist in each of Sri Lanka and Thailand to produce independent projections and valuations to coincide with our annual audit and forestry report. For 2019, we did the tree audits in Feb/March and it will be the first job of the newly appointed specialists to review these as part of an on-site Forestry Management Consultation. We would expect their findings to be reported to all clients by the end of December 2019.

Who is the Trustee and what is their role?

The Trustee, Forestry Ownership Ltd. is a UK registered company, run by a lawyer. It was established in 2011, by a Declaration of Trust, to act as an independent resource to monitor the dealings of AsiaTeak, on behalf of the clients. They are completely independent of AsiaTeak. We have kept the Trustee informed of our financial issues and sought their advice. They fully support this action and recommend all clients to accept the new arrangement. Subject to this new arrangement being accepted by all clients, they will continue to monitor the situation and will provide an annual report to clients. They will also have control over the bank account used for the new funding to ensure that it is only used for the intended purpose.

What will happens next?

Assuming we receive a level of acceptance that is satisfactory to the funder, we are planning to finalise and sign the new contract by end August 2019. Following that we will write to you confirming the revised terms with a new Purchase Confirmation detailing your Purchase Order details.

For our Thai clients, we will then allocate specific trees to each order and advise you of the location and grid reference of your trees. For Sri Lanka clients, this will be done shortly after the final thinning which will take place in 3 – 5 years time.

Since we will no longer be spending all our efforts on pursuing new sales, we will have much more time available to focus on maintaining our plantations to the best of our ability. The new funding will allow us to spend more on soil improvement including extra nutrients and fertilizer to encourage better growth. We also need to make some other plantation improvements such as maintenance of fences, roads and waterways.

Lastly, we will turn our attention to seeking the best way to sell your trees to maximise the commercial return. This may be via local wholesalers or direct to manufacturers of teak products. The fact that the funder will now dictate the harvest time will allow us to plan the timely harvest of trees, possibly under a sales contract to a manufacturer which would again increase the return.

Further Questions

Please direct any further questions by email to info@asiateakgroup.com and we will update these FAQs accordingly and post on our website www.asiateakgroup.com