



**SmartWood**

*Practical conservation through certified forestry*

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## **Verification Re-Assessment Report**

for:

Carl Ronnow Sdn Bhd

in

Sabah, Malaysia

Verification of:

Legal Origin and Right to Harvest

in

Sabah, Malaysia

Report Finalized: 12 December 2008

Evaluation Date: 21-24 October 2008

Evaluation Team: Christian Sloth

Verification statement issued: 11 October 2008

Verification validity period: 12 months

Verification code: SW-VER-0009

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# 1. INTRODUCTION

The purpose of this report is to document conformance with the requirements of SmartWood VLO Standards by Carl Ronnow SDN BHD. Hereafter referred to as “Company”. The report presents the findings of SmartWood auditors who have evaluated company systems and performance against the applicable standard(s). Section II below provides the audit conclusions and any necessary follow-up actions by the company through corrective action requests.

The Rainforest Alliance’s certification program, [SmartWood](#), was founded in 1989 to certify responsible forestry practices and now focuses on providing a variety of certification and auditing services.

Verification of Legal Origin Audits verify on-site that the forest source has obtained the license to harvest, acquired planning approvals and permits, paid the required taxes, royalties and/or harvesting fees and maintained a chain of custody system. The standard does not evaluate complete legal compliance.

Dispute resolution: If SmartWood clients encounter organizations or individuals having concerns or comments about Rainforest Alliance/SmartWood and our services, these parties are strongly encouraged to contact SmartWood Headquarters directly. Formal complaints or concerns should be sent in writing.

## 2. VERIFICATION CONCLUSIONS

### A. Auditor Recommendation

Based on performance with verification of origin and generic chain of custody requirements for material inputs with a legal right to harvest recommends that the company be:

Approved for verification statement as a supplier of material from a source with legal right to harvest and chain of custody for 12 months.

Approved for verification statement as a supplier of material from a source with legal right to harvest and chain of custody for 12 months, however with stated corrective actions (CARs) that must be met by the timelines for completion listed below.

Not approved for verification. Must meet Major CARs before company can be approved for verification statement as a supplier of material from a source with legal right to harvest.

### B. New Corrective Action Requests (CARs)

Note: CARs describe required actions or improvements that address COMPANY non-conformances identified during audits. CARs include defined timelines for completion. Major CARs issued during assessments/ reassessments shall be closed prior to issuance of certification. Major CARs issued during audits shall be closed within timeline or result in suspension.

CAR 03/08		Reference Standard & Requirement: C.14
Non-conformance:		Some of the company's suppliers have been verified under other legality verification schemes. This makes it difficult in the saw mills to differentiate between wood that is VLO under the CR groups scheme and wood verified under other schemes.
Major	Minor X	
Corrective Action Request: CR shall develop and implement a marking system in the sawmills that participate in their VLO scheme that ensure that VLO under the CR scheme can be differentiated from other verification systems.		
Timeline for conformance:		Prior to the time of the next audit.
Evidence to close CAR:		Pending
CAR Status:		OPEN
Follow-up Actions		

### C. Observations

Note: Observations are issued for areas that the auditor sees the potential for improvement in implementing standard requirements or in the quality system; observations may lead to direct non-conformances if not addressed.

N/A

## **D. Actions Taken by Company Prior to Report Finalization**

N/A

### 3. AUDIT PROCESS

Changes to the Operation / Procedures since Last Audit:	NA
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#### A. Auditors (name, qualifications, affiliations):

**Christian Sloth**, team leader, is the regional Operations Coordinator of the SmartWood office in Jakarta, Indonesia. He has a Masters Degree in forest science and land use in developing countries as well as a Masters Degree in agro-forestry and tropical forestry. Before joining SmartWood in 2006 Christian worked for two years in Vietnam for the United Nations Food and Agriculture Organisation as a forestry specialist. He has also worked as a technical advisor for the Cambodian Development Resource Institute, undertaking research on forest valuation and management.

#### B. Evaluation schedule and list of visited sites and facilities

Date	Site	Main Activities
20 Oct 08	CR MGR main office, KD facility and storage.	Document review
21 Oct 08	Borneo Moulding; Rimba Kekal; Constant Rise; Master Group storage facility	Saw mill and KD facility visit
22 Oct 08	Uni lumber Gold Rank; Marasetia	Saw mill visits
23 Oct 08	Juta Seloka;	Saw mill visits
24 Oct 08	Uni Lumber Irama Ramai; PPL Java;	Saw mill visits

#### C. Description of evaluation process

The evaluation as carried out over a 5 day period and included visit to the above entities within the group management system of CR.

The following entities that are included in the scope of the CR VLO group management were not visited during this audit:

1. Priceworth Industries (3 CARs)
2. Rimbunan Gagah (No open CARs)
3. Makin Popular (1 CAR)

In cases where these entities had open CARs they were all related to documents and procedures and these were reviewed by the auditor and all CARs were closed. No checklist has been developed during this re-assessment for Rimbunan Gagah since no CARs are open.

## 4. COMPANY INFORMATION

### A. Primary Contact for Company Seeking Verification Service

Primary Contact, Position:	Mr. Richard Anning
Address:	Carl Ronnow, Kg. Melawa, 14.5 Km, Jln Sepangar Bay, Menggatal, Locked Bag 20, 88990 Kota Kinabalu, Sabah, Malaysia
Tel/Fax/Email:	+60 88 483 888/+60 88 483 801/rja@carlronnow.com.my

### B. Billing Contact

Contact, Position:	Same as above
Address:	
Tel/Fax/Email:	

### C. SmartWood Website Customer Fact Sheet

Note: upon Verification, the SmartWood website posts and maintains Customer Fact Sheets for companies with the information in the table below at <http://www.ra-smartwood.org/>

Field	Text for Customer Fact Sheet	Has this Info Changed?
Contact, Title: (Sales & Marketing)	Mr. Richard Anning, Environmental Manager	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Address:	Carl Ronnow, Kg. Melawa, 14.5 Km, Jln Sepangar Bay, Menggatal, Locked Bag 20, 88990 Kota Kinabalu, Sabah, Malaysia	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Tel/Fax/Email/Website:	+60 88 483 888/+60 88 483 801/www.dlh-group.com	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Products/Descriptions:	Sawn timber and molded products	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Species:	Red Meranti ( <i>Shorea acuminata</i> ) Dark Red Meranti ( <i>Shorea negrosensis</i> ) Obar Suluk ( <i>Shorea</i> spp.) Kapur ( <i>Drobalanop</i> spp.) Keruing ( <i>Dipterocarp</i> spp.) Selangan Batu (balau) ( <i>Shorea guiso</i> & <i>Shorea lagata</i> ) Seraya Minyak ( <i>Shorea</i> spp.) White Seraya ( <i>Shorea assamica</i> )	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

## **D. Verification Scope:**

**Verification of Legal Origin (VLO)** is used to assess and verify that timber or non-timber forest producers have a documented legal right to harvest under the laws and regulations of Sabah Forest Department and that all points along the defined supply chain utilizing the forest product maintain systems to document and control the chain of custody.

**Chain-of-Custody (CoC):** CoC in the forest products industry refers to the path taken by raw materials from the forest to the consumer including all successive stages of processing, transformation, and distribution. For the purposes of this fundamental CoC standard, CoC refers to the tracking and handling systems in use from the point of purchase to the point of shipment and sale for the company being audited.

The scope of the audit is to verify the legal origin of logs, lumber, and solid wood based products purchased and sold from the company and specified approved sources (logging contractors, licensees, hauling and transport contractors, brokers, sawmills, and warehouses) audited in Kota Kinabalu and Keningau, Sabah, Malaysia as defined in this report.

### **Number of sites included in this verification:**

The VLO will cover:

- Sawmills - 9
- KD – 2
- Warehouse -1

### **Type of Legal Entity:**

Limited Liability Company (SDN BHD)

### **Jurisdiction:**

Sabah, Malaysia

**Details of Company facilities included in the scope:**

Location (address)	Operation Type	Material Inputs (include brief description of volumes and species)	Source of Inputs (include input source by name)
Carl Ronnow, Kg. Melawa, 14.5 Km, Jln Sepangar Bay, Menggatal, Locked Bag 20, 88990 Kota Kinabalu, Sabah, Malaysia	Office, MGR storage and KD facility	Red Meranti ( <i>Shorea acuminata</i> ) Dark Red Meranti ( <i>Shorea negrosensis</i> ) Obar Suluk ( <i>Shorea</i> spp.) Kapur ( <i>Drobalanop</i> spp.) Keruing ( <i>Dipterocarp</i> spp.) Selangan Batu (balau) ( <i>Shorea guiso</i> & <i>Shorea lagata</i> ) Seraya Minyak ( <i>Shorea</i> spp.) White Seraya ( <i>Shorea assamica</i> )	VLO approved sawmills
DLH Timber Industries, Kg. Melawa, 14.5 Km, Jln Sepangar Bay, Menggatal, Locked Bag 20, 88990 Kota Kinabalu, Sabah, Malaysia	MGR molding facility	As above	As Above
Carl Ronnow, Tawau	Master Group storage facility	As above	As above

**Details of suppliers INCLUDED in the scope:**

Company/License name:	UNI LUMBER SDN BHD (GOLD RANK)
Contact person:	Mr Francis Loo
Address:	Wisma Merdeka P.O. Box B191 88000 KK, Sabah Malaysia
Tel/Fax/Email:	T: 088 267499 F: 088 265979 E: N/A
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.

Company/License name:	UNI LUMBER SDN BHD (IRAMA RAMAI MILL)
Contact person:	Mr Chai Wan Chong
Address:	Wisma Merdeka P.O. Box B191 88000 KK, Sabah Malaysia
Tel/Fax/Email:	T: 088 267499 F: 088 265979 E: N/A

Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.
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Company/License name:	JUTA SELOKA SDN BHD
Contact person:	Mr Chew
Address:	Suite 2-4, 12 <sup>th</sup> Floor, Wisma Perindustrian, Jalan Istiadat Likas, 88400, Kota Kinabalu, Sabah, Malaysia.
Tel/Fax/Email:	T: 088 263 232 F: 088 235 223 E:
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.

Company/License name:	JAVA/PEMBANGUNAN PAPAN LAPIS SDN BHD
Contact person:	Mr. Koh Loy Fook
Address:	Mile 5, Nabawan Road, PO BOX 2000, 89008 Keningau, Sabah, Malaysia
Tel/Fax/Email:	T: 087 301 835 F: 087 301 834 E: lfkoh@java-inc.com.my
Inputs/Outputs by Claim Category:	Only VLO category is used.

Company/License name:	MAKIN POPULAR SDN BHD.
Contact person:	Ms Sandra/ Mr. Lu Kheng Ying
Address:	Office: Suite 2-4, 12 <sup>th</sup> Floor, Wisma Perindustrian, Jalan Istiadat Likas, 88400, Kota Kinabalu, Sabah, Malaysia.
Tel/Fax/Email:	T: 088 263 232 F: 088 235 223 E: makinpopular@hotmail.com
Inputs/Outputs by Claim Category:	Only VLO category is used.

Company/License name:	RIMBUNAN GAGAH SDN BHD
Contact person:	Mr. Peng, Saw Mill Manager
Address:	Pinangah Sawmill, Telupid, Sabah, Malaysia
Tel/Fax/Email:	T: +60 518 720 F: +60 518 721 E: N/A
Inputs/Outputs by Claim Category:	Logs input. Sawn timber output. Only VLO and non- VLO categories are used. Has not supplied VLO timber since a management change in May 07.

Company/License name:	MARASETIA SDN BHD
Contact person:	Mr. Sim Leong Seng

Address:	TB 3473, M 7 1 <sup>st</sup> floor, Section B, Wisma Indotani Jalan Masjid, 91000 Tawau, Sabah, Malaysia
Tel/Fax/Email:	T: 089 763388 F: 089 765588 E: N/A
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.

Company/License name:	PRICEWORTH INDUSTRIES SDN BHD
Contact person:	Mr K. S. Pang
Address:	KM 5.5, Off Jln. Ulu Sibuga, Kuala Seguntor, Sandakan PO BOX 2848, 90732 Sabah Malaysia
Tel/Fax/Email:	T: 089 665830, 665832, 665835 F: 089 665827 E: <a href="mailto:limnf@pc.jaring.my">limnf@pc.jaring.my</a>
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used based on buyer's requirement.

Company/License name:	CONSTANT RISE SDN BHD
Contact person:	Mr. Andy Cho
Address:	Ladalm TG Batu, Tawau
Tel/Fax/Email:	T: 016 832 6728 F:089 715 628 E: mk1969lee@yahoo.com
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used based on buyer's requirement.

**Approved VLO kiln driers (outsourcing), included in scope:**

Company/License name:	BORNEO MOULDING SDN BHD
Contact person:	Mr N. S. Kamalanathan
Address:	Mile 3, Tanjung Batu Laut, PO BOX 60465, 991014, Tawau, Sabah Malaysia
Tel/Fax/Email:	T: 089-773511, 013-8833541 F: 089-757253 E: bmkd94@hotmail.com
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used based on buyer's requirement.

Company/License name:	RIMBA KEKAL SDN BHD
Contact person:	Ms Juliana Muhamed
Address:	PO Box 61692, 91026 Tawau, Sabah

Tel/Fax/Email:	T: 019-8134784 F: 089 748633/713007 Email: ju123@tm.net.my
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.

**Details of storage (outsourced), included in the scope:**

N/A

**Details of Sources INCLUDED in the scope:**

Location (address)	Operation Type	Species	Area (ha)	License	AAC (M3)
Yayasan Sabah	Forest Concession	Red Meranti ( <i>Shorea acuminata</i> ) Dark Red Meranti ( <i>Shorea negrosensis</i> ) Obar Suluk ( <i>Shorea</i> spp.) Kapur ( <i>Drobalanop</i> spp.) Keruing ( <i>Dipterocarp</i> spp.) Selangan Batu (balau) ( <i>Shorea guiso</i> & <i>Shorea lagata</i> ) Seraya Minyak ( <i>Shorea</i> spp.) White Seraya ( <i>Shorea assamica</i> )	972,804 ha	SMFLA 09/97	

**Details of suppliers SUSPENDED from the scope:**

Company/License name:	GMELINA JAYA SDN BHD
Contact person:	Mrs. Linda Loh
Address:	Ladalam Timber Complex mile 3 ½. Tajung Batu Laut, P.O. Box 91010 Tawau Sabah, Malaysia
Tel/Fax/Email:	T: 089 925919 F: 089 920729 E: fjwood@tm.net.my
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.

Company/License name:	GOLDEN KILO SDN BHD (BALACK GUNUNG MILL) (not active)
Contact person:	Mr Chee Ten
Address:	Lot 5 & 6 Bunga Raja Complex, Ring Road, P.O Box 11497, 88816, KK, Sabah Malaysia

Tel/Fax/Email:	T: F: E: N/A
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.

Company/License name:	MARICREST SDN BHD
Contact person:	Mr Eddie Sau Cheong Chee
Address:	P.O. Box 61899, 91028 Tawau, Sabah, Malaysia
Tel/Fax/Email:	T: 089 755233 F: 089 750233 E: <a href="mailto:eddiesau@tm.net.my">eddiesau@tm.net.my</a>
Inputs/Outputs by Claim Category:	Only VLO and non- VLO categories are used.

**Location where relevant records will be kept:**

Primary Contact, Position:	Mr. Richard Anning
Address:	Carl Ronnow, Kg. Melawa, 14.5 Km, Jln Sepangar Bay, Menggatal, Locked Bag 20, 88990 Kota Kinabalu, Sabah, Malaysia
Tel/Fax/Email:	+60 88 483 888/+60 88 483 801/rja@carlronnow.com.my

**Additional details for the scope:**

## 5. Evaluation of Open Corrective Action Requests (CARs)

Note: this section indicates the company's actions to comply with CARs that have been issued during or since the last audit. Failure to comply with a minor CAR results in the CAR being upgraded to major; the specified follow-up action is required by the company or involuntary suspension will take place.

Status Categories	Explanation
Closed	Operation has successfully met the CAR.
Open	Operation has either <u>not met</u> or has <u>partially met</u> the CAR.

CAR 01/08	Reference Standard & Requirement: C.7.4	
Non-conformance:		The company has not created and presented a separation between VLO and non-VLO timber opening balance in the monthly summary stock balance.
Major	Minor X	
Corrective Action Request: The company shall clearly calculate, document and present the opening balance stock of VLO and non-VLO timber in the monthly summary of input and output as well as closing balance stock. This shall be described in the relevant procedure.		
Timeline for conformance:		Prior to the time of the re-assessment 2008.
Evidence to close CAR:		Company has developed separation between VLO and non-VLO in their monthly summary report. Exhibit 1
CAR Status:		CLOSED
Follow-up Actions		

CAR 02/08	Reference Standard & Requirement: C.7.1 & C.7.2	
Non-conformance:		In the monthly summary report (Document no. SF 037), the company did not include information about date of timber purchasing by each supplier and stated the species of timber they bought.
Major	Minor X	
Corrective Action Request: The company shall include date of timber purchasing by each supplier and state the species of timber they bought in the monthly summary report.		
Timeline for conformance:		Prior to the time of the re-assessment 2008.
Evidence to close CAR:		Company has included the date of timber purchase from each supplier in the monthly report (Document no. SF 037). Exhibit 4
CAR Status:		CLOSED
Follow-up Actions		

## 6. Conformance with verification of legal origin and chain of custody requirements for Carl Ronnow

The following section summarizes the Company's compliance with SmartWood VLO requirements as per the *SmartWood Standard for Verification of Legal Origin (VLO) for Sabah Malaysia*, Version 2, dated 02 December 2007.

<b>PRINCIPLE 1: LEGAL RIGHT TO HARVEST</b>								
The legal status of the forest management unit shall be clearly defined and boundaries delineated. The forest management enterprise (FME) shall prove that it has validly obtained the legal right to operate and to harvest timber from within the defined forest management unit.								
<i>Criteria and Indicators</i>	<i>Findings</i>							
1.1 Clear, documented and unchallenged legal registration of FME with authorization for specific activities shall exist.								
Criterion Level Remarks:								
1.1.1: FME shall have tax registration number/forms and valid business license to operate within the jurisdiction.	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>All of timbers produced by the CR's suppliers came from Yayasan Sabah Forest Concession, a state run operation under direct control of the forestry department. YS has gotten license to manage the forest for 100 years under the SFMLA. The total of consolidated concession area is 972,804 ha and divided into several FMUs.</p> <p>Yayasan Sabah (Sabah Foundation) was established in 1966 by an Enactment of the Sabah Legislative Assembly (En. 8/66) with a MYR1m launching grant to implement a scholarship and study loan programme for higher education. Its mission: "To enhance the quality of life of Malaysians in Sabah" includes activities related to the provision of educational opportunities and facilities, health and welfare services for the people. These activities are funded by profits accrued by a broad base of subsidiary companies including shipping, real estate, tourism and agriculture. However the primary source of revenue to Yayasan Sabah comes from forestry and timber interests supported by the allocation of forest concessions by the state government:</p> <table border="1" data-bbox="955 1377 1906 1425"> <thead> <tr> <th>Year</th> <th>Area</th> <th>Concession</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>		Year	Area	Concession			
Year	Area	Concession						

1967	10,360 ha	First timber concession granted by government
1970	854,700 ha	Allocation of areas transferred from other concessions
1984	972,804 ha	Consolidated concession area

The ownership of these areas remains with the Sabah State, however Yayasan Sabah has the right to harvest timber and carry out related activities for the duration of its 100-year license agreement (1997-2097).

The breakdown of forest areas that equate to the above is as follows:

Danum Valley	43,800 ha
Maliau Basin	56,964 ha
Imbak Canyon	13,000 ha
Other Conservation Areas	8,005 ha
Benta Wawasan	306,310 ha
Production Forest	586,828 ha

Key Yayasan Sabah subsidiaries include the following companies:

Year of incorporation	Activities
1970 Rakyat Berjaya Sdn Bhd	forest management
1973 Sabah Softwoods Sdn Bhd	plantation development
1988 Innoprise Cooperation Sdn Bhd	investment management
1998 Benta Wawasan Sdn Bhd	plantation development

The logs that are sourced by the participating sawmills that are approved as VLO and which supply the sawn timber to CR are nearly all from the licensed Yayasan Sabah concessions. The only exception was those logs from alienated land covered by the Form II B license issued on timber or forest produce extracted from alienated lands.

	<p>Yayasan Sabah signed the SFMLA 09/97 on 10th Sept. 1997 which supersedes the original Principal License Agreement for Timber issued in 1970 for the entire area. Under the SFMLA, YSCA was divided into several FMUs shown above.</p> <p>The concessions from which wood is supplied to the mills and through them to CR are all covered by Yayasan Sabah's SFLMA no 09/97, which would include the coupes that are harvested by large contractors, such as Rakyat Berjaya Sdn Bhd.</p> <p>Related to the Form II B Legal Standing and Forest Management Procedure, the company has decided to exclude timber originating from areas harvested under a Form II B license as well as a Form A license. Details information on business license has been sent it to SW office.</p>
<p>1.1.2: Legal status of the operation and rights for conducting the established activity shall not be challenged in the courts or other legally-binding venue.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  No such challenge has been identified.</p>
<p>1.1.3: If legal status and rights are being challenged, the operation is engaged in a legal process to resolve the challenges.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  No such challenge has been identified.</p>
<p>NOTES: (CARs/Observations)</p>	
<p>1.2 FME shall have authorization to harvest in the forest management unit.</p>	
<p>Criterion Level Remarks:</p>	
<p>1.2.1: FME shall have documented permission from resource owner, including those with rights held according to customary law, obtained with free and informed prior consent. In the case of harvesting on alienated land there is the written permission by the owner or lessee of such land.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  Timber originating from areas harvested under a Form II B license as well as a Form A license has been excluded as CR's VLO sources. The written permission is obtained through SFMLA issued by Sabah Forest Department (SFD).</p>
<p>1.2.2: There shall be evidence that a valid permit, license or similar instrument was issued pursuant to the laws and regulations governing the management and harvesting of</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  See 1.1.1 and 1.2.1</p>

<p>forest resources. The FMU shall be covered by one of the following:</p> <ul style="list-style-type: none"> <li>• <i>License to Take Forest Produce</i> (Form I, Forest Rules 1969);</li> <li>• License to Take Forest Produce Free of Royalty (Form IIa, Forest Rules 1969);</li> <li>• License to Take Forest Produce on Prepayment of Royalty (Form IIb, Forest Rules 1969); or</li> <li>• <i>Sustainable Forest Management License Agreement</i> (Section 15(1) Forest Enactment 1968). In the SFMLA the name and legal status of the entity managing the forest is stated under “License Agreement”</li> </ul>	
<p>1.2.3: License, permit or similar instrument shall be issued by proper competent administrative authority, and, if legally required, through a transparent public procedure.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> See 1.1.1 and 1.2.1</p>
<p>NOTES: (CARs/Observations)</p>	
<p>1.3 Evidence shall exist that the forest management area is legally classified for the type of land-use or commercial activities conducted.</p>	
<p>Criterion Level Remarks:</p>	
<p>1.3.1: The forest harvesting activities shall correspond to the legal land use classification for the forest management unit.</p> <p>In the case of land that is subject to clearing for industrial tree plantations, the Company holds a valid <i>Plantation Development Plan</i> approved by the Director of Forestry for the area.</p> <p>The (gazetted) boundaries of a license area do not conflict with any land use classification in which the activities allowed under the license are prohibited.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> See 1.1.1 and 1.2.1</p>
<p>1.3.2: The forest harvesting area shall be clearly indicated on a map at a scale to permit identification and boundaries do not conflict with land-use classifications for areas where timber harvesting is prohibited.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> See 1.1.1 and 1.2.1</p>
<p>NOTES: (CARs/Observations)</p>	

**PRINCIPLE 2: APPROVED PLANNING AUTHORIZATIONS:**

The forest management enterprise shall have received the necessary approval for the basic and fundamental planning requirements legislated as necessary to enable forest management and are adhering to production restrictions and quotas within their permitted harvest rights.

**Criteria and Indicators****Findings**

2.1: If legally required, a forest management plan shall be approved by the relevant authorities.

## Criterion Level Remarks:

2.1.1: A forest management plan shall be approved by the relevant authorities.  
For an SFMLA, a forest management plan or forest harvesting plan (or exception to this) has been approved by the Director of Forestry, Sabah.  
Form I and Form II b licenses do not need an FMP.

Conformance with Indicator: Yes  No  N/A   
Yayasan Sabah has created Forest Management Plan and been approved under SFMLA 09/97 by SFD on Sept 1997. Details of FMP have been sent to SW office.  
  
Form II b license has been excluded from the scope of forest origin by the company.

2.1.2: Clear cartographic evidence shall confirm the forest management unit is within the management plan area.

Conformance with Indicator: Yes  No  N/A   
The forest management units have been clearly mapped.

2.1.3: Approved plans shall contain volumes of harvesting authorized.

Conformance with Indicator: Yes  No  N/A   
The Sabah Forest Department has sent AAC data to SW office.

## NOTES: (CARs/Observations)

2.2 Annual operating or harvest plans shall be approved by relevant authorities.

## Criterion Level Remarks:

2.2.1: A current, approved operating or harvest plan shall exist.  
In the case of land under a SFMLA, the company holds a valid *Annual Work Plan* that has been approved by the Director of Forestry, Sabah.

Conformance with Indicator: Yes  No  N/A   
The YS has an approved work plan.

2.2.2: The permitted annual allowable cut or production quotas shall be clearly documented in the plan.

Conformance with Indicator: Yes  No  N/A   
See 2.1.3 and 2.2.1

2.2.3: Permission to harvest a CITES-listed species shall be documented.

Conformance with Indicator: Yes  No  N/A   
The company did not trade timber species that is listed in CITES

	Appendix.
NOTES: (CARs/Observations)	
2.3 If legally required, Environmental or Social Impact Assessments shall be prepared.	
Criterion Level Remarks:	
2.3.1: Social and environmental impact assessments shall be prepared and accepted by the competent authority.	Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> YS has carried out the required social and environmental assessments.
NOTES: (CARs/Observations)	

<b>PRINCIPLE 3: PAYMENT OF FEES AND TAXES REQUIRED TO MAINTAIN RIGHTS:</b>	
The forest management enterprise regularly fulfills all obligatory tax; fee and/or royalty payments associated with maintaining the legal right to harvest and permitted harvesting volumes.	
<b>Criteria and Indicators</b>	<b>Findings</b>
3.1 All applicable and legally prescribed fees, royalties, taxes and other charges shall be paid: The management unit has completed payments of government retribution requirement related to timber.	
Criterion Level Remarks:	
3.1.1: Clear and documented evidence shall exist that FME is current with payments.	Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> There is clear and documented evidence that all royalties have been paid by YS before selling the logs.
3.1.2: Acknowledgement of receipt of royalties, fees and dues by beneficiaries shall exist.	Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> See 3.1.1
NOTES: (CARs/Observations)	

**CHAIN OF CUSTODY:**

Documented control of the chain of custody of forest products is a fundamental requirement in the traceability of forest products from the forest source to ensure that separation is maintained between verified and non verified products. This principle applies from the point of harvest up to the forest gate for forest management enterprises (FMEs) and between handling steps for other suppliers, manufacturers, and traders. Criteria marked with an \* are only applicable for FMEs.

<b>Criteria</b>	<b>Findings</b>
Quality System Criteria:	
<p><u>C.1</u> Company shall define CoC system responsibilities and appoint staff positions, including the following:</p> <p>C.1.1 One overall responsible person shall be designated for the CoC control system;</p> <p>C.1.2 Individual responsible persons shall be designated for each part of the CoC control system.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>The overall responsible person of the company for CoC control system is Richard Anning. The company has also defined individual responsible persons for each stage of the CoC control system that are described in the SOP.</p>
<p><u>C.2</u> Company shall develop and maintain up-to-date documented procedures and/or work instructions to ensure implementation of all applicable CoC standard requirements.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>The company has developed appropriate procedures and has addressed CARs from previous audit.</p>
<p><u>C.3</u> Company shall develop and implement procedures for addressing non-conformances (corrective action requests, observations) identified by auditors.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>It has been done and clearly stated in the procedure.</p>
<p><u>C.4</u> Company shall develop and implement procedures for internal evaluation (audit) of its systems as related to CoC requirements in this standard.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>It has been created and clearly stated in the procedure. The internal audit will be conducted as annual basis. CR carries out audits of all members of its group (documentation was viewed by the auditor), CR also carries out internal audit of its own procedures. All members of the group also carry out an internal audit (usually carried out in connection with the CR audit of them).</p>
<p><u>C.5</u> Company shall develop training requirements and implement training as follows:</p> <p>C.5.1 All applicable staff and workers shall be trained according to the CoC procedures.</p> <p>C.5.2 Record shall be kept to demonstrate training has taken place.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>The company has kept and updated the training record. The last training was conducted on 14 July 2008 and the procedure is updated on 31 March 2008.</p>

<p><u>C.6</u> Company shall define and document VLO as a claim category that will be tracked.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>The group of products that were claimed as VLO are:</p> <ul style="list-style-type: none"> <li>• S4S timber</li> <li>• S2S timber</li> <li>• Decking</li> <li>• Molded profiles</li> </ul>
<p><u>C.7</u> Company shall develop and maintain records to document quantities of VLO product for the following:</p> <p>C.7.1 Production of raw material;</p> <p>C.7.2 Purchased as inputs/raw material;</p> <p>C.7.3 Used in production, including conversion factors;</p> <p>C.7.4 Inputs and final products in stock; and,</p> <p>C.7.5 Final products sold with and without a claim.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Company has developed a system in which each member of their VLO group supplies CR with monthly summaries of production (both VLO and non-VLO). Each company uses three separate forms:</p> <ul style="list-style-type: none"> <li>• Log purchasing form (Form SF 034). Exhibit 2</li> <li>• VLO log to sawn timber production summary (Form 036) Exhibit 3</li> <li>• VO sales summary (Form 037). Exhibit 4.</li> </ul> <p>In addition CR creates a summary for all their members (Exhibit 1)</p>
<p>NOTES: (CARs/Observations)</p>	
<p>In-Forest Production Criteria:</p>	
<p>*C.8 FME procedures and practices shall provide effective control of forest products from standing timber until ownership is transferred at the forest gate.</p> <ul style="list-style-type: none"> <li>• a valid Disposal Permit for round Logs for Processing (Form VI, Forest Rules 1969); or</li> <li>• a <i>Transit Pass</i> (Form VII, Forest Rules 1969) issued by the Sabah Forestry Department.</li> </ul>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>No FMU field visit was carried out during the re-assessment. This was due to the fact that FMU visit was carried out during the 6 month audits that took place in the end of July 2008 or just 3 months prior to the re-assessment. It was found that the 6 month audit was well carried out and included a thorough analysis of the FMU level conformance to the in-forest production criteria; it was considered that the finding of the 6 month audit sufficiently covers the requirement to evaluate conformance by Yayasan Sabah with regards to Criterion 8.</p> <p>During the 6 month audit it was found that the data on timber is well-maintaining and documented in a full database. YS is conducting trial implementation of RFID technology to track back the logs up to the stump at Sandakan area. The technology will possible to provide real time data back to database in KK. When it was successfully implemented, YS will scale up to apply the technology to other FMUs, including Keningau forest.</p>

<p>*C.9 FME procedures and practices shall control the risk of mixing VLO forest products with non-VLO products which originate outside the scope of the verification.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  All timbers included in the scope of verification are harvested from FMUs covered by the SFMLA 09/97 license.</p>
<p>*C.10 A system shall exist to identify FME products as VLO (e.g. through documentation or marking system) at the forest gate.  Logs have permanent physical markings containing adequate information to trace them back to the cutting block, and for plantation to the smallest felling unit.  All logs transported from logging areas are marked using tags, paint and/or chisel marks that contain sufficient information to trace each log back to the license area.  Hammer-marks have been approved by the Director of Forestry, Sabah.  Management Unit able to prove records of wood transportation to outside log yard</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  There was clear physical marking on logs with information on area and coupe origin using the SFD hammer mark. There is also SFD stamp to indicate that all royalties are paid.</p>
<p>NOTES: (CARs/Observations)</p>	
<p>Purchasing and Receiving Criteria:</p>	
<p><u>C.11</u> Company shall verify the validity of the supplier's VLO claim.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  All suppliers have signed agreements to follow CR VLO policy in timber sourcing.</p>
<p><u>C.12</u> Company shall verify that material purchased and received is consistent with the VLO claim category specified.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  The suppliers within CR VLO group only supply timber as requested by the company.</p>
<p><u>C.13</u> Company shall store VLO material as separate, secure units.</p>	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  The company has separate the VLO and non-VLO sawn timber in a secure unit and with clear identification.</p>
<p><u>C.14</u> Company shall use a distinguishing mark to identify VLO material.</p>	<p>Conformance with Indicator: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> N/A <input type="checkbox"/>  The suppliers have a procedure to put VLO mark on the bundle of sawn timber that will be sent to CR. When the timber arrives at CR's yard, the VLO supplier's mark will be changed with the company's VLO number.   It was found in the storage yard of Irama Ramai they have received</p>

	<p>legality verification from GFS. The GFS scheme allows the company to mark all wood originating from SMFLA as VLO. This makes it impossible to distinguish between wood that is included and managed under the scope of the CR group scheme. This in reality makes it impossible to verify, by sight, that the wood is included in the CR scope and will be sold through the system of CR.</p> <p>CAR 03/08</p>
NOTES: (CARs/Observations): CAR 03/08	
Processing Criteria:	
<u>C.15</u> Company shall keep VLO material physically separate during all stages of processing.	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>All VLO timber inputs are processed separately using a batch system and clear identification.</p>
<u>C.16</u> Company shall use a tracking system or production records to document production of VLO material.	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>The company used a batch system to link each document in the CoC control system. The batch number will be the key identity to trace the timber back to the source origin.</p>
<u>C.17</u> Company shall ensure that any off-site processing that takes place at a subcontracted facility follows CoC procedures and is covered by a signed outsourcing agreement.	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>It has been regulated on the company procedure for outsourcing agreements. There is no new member of the outsourcing company since last audit.</p>
<u>C.18</u> All material that cannot be identified as VLO shall be kept physically separate from all other material until documented evidence of the claim category is obtained.	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>There are work instructions and procedures to handle VLO and non-VLO timber in place.</p>
NOTES: (CARs/Observations)	
Shipping and Sales Criteria:	
<u>C.19</u> Company shall store final VLO products as separate, secure units.	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>VLO wood is bundled and stored in a separate area.</p>
<u>C.20</u> Company shall use a distinguishing mark to identify final VLO products.	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>CR marks their verification code on the sides of the bundles of sawn timber. In some instances they print "Verified Legal Origin" in addition.</p>
<u>C.21</u> Company shall include claim information on sales	<p>Conformance with Indicator: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p>

invoices and shipping documents, including the following:

- C. 21.1 A description of the product as VLO;
- C. 21.2 The quantity/volume for each product; and
- C. 21.3 The verification code, if applicable.

Invoices were viewed by the auditor and they contain the necessary information.

NOTES: (CARs/Observations)

**Appendix A: Summary of Exhibits Collected and those Included with this Report**

Exhibit	Item
1	Production summary
2	Log purchasing form (Form SF 034).
3	VLO log to sawn timber production summary (Form 036)
4	VLO sales summary (Form 037).

## **Appendix B: Verified Production Summaries**

See Exhibit 1

## **Appendix C: Details for Audit of Each Participating Supplier and Source of Wood**

See attached documents