



MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

23 September 2020

BY FAX/EMAIL/HAND

(FAX: 03-2092 5923)

The Chairman and
Board of Directors
KUMPULAN FIMA BERHAD
Suite 4.1, Level 4
Block C, Plaza Damansara
No. 45, Jalan Medan Setia 1
Bukit Damansara
50490 Kuala Lumpur

Attention: Jasmin binti Hood / Fadzil bin Azaha
Company Secretaries

**Re: 48th Annual General Meeting (AGM) of Kumpulan Fima Berhad ("KFIMA") on
Tuesday, 29 September 2020**

In the interest of minority shareholders and all other stakeholders of the Company, we would like to raise the following issues: -

Strategy & Financial Matters

- 1) KFIMA made an impairment loss of RM17.79 million on property, plant and equipment and right-of-use assets in PT Nunukan Jaya Lestari (PTNJL) after the Mahkamah Agung of Indonesia allowed the judicial review application by Menteri Agraria and Tata Ruang/Kepala Badan Pertanahan Nasional against PTNJL over a land title dispute.
 - a) Does the Board foresee further impairment or reversal on PTNJL in FY21?
 - b) What are the operational impacts arising from PTNJL due to the ongoing material litigation with the Indonesian government?
 - c) How will the material litigation affect the status of PTNJL's Hak Guna Usaha (HGU) of the 19,974 hectares land which will lapse in year 2038? Are the allegedly overlapping 3,500 hectares land (which is within PTNJL's HGU) currently in operation (page 216 – 217, Note 46 Material Litigation, Annual Report 2020)?
 - d) PTNJL could not produce nor sell any CPKO in the first three quarters of FY20 due to issues related to the plant's operating license (page 38 of AR2020). What are the issues on the plant's operating license? When are these issues expected to be resolved?

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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- e) Will the plantation division be able to turn around in FY21?
- 2) KFIMA's average oil extraction rate (OER) decreased to 21.68% in FY20 from 22.34% in FY19 (page 43 of AR2020), resulting in a 14.7% decline in CPO production to 40,934 MT from 47,966 MT in FY19.
- a) What is the age profile of KFIMA's trees in Malaysia and Indonesia?
- b) What caused the lower OER in FY20? How does the OER compare to industry average?
- 3) Revenue of the manufacturing division declined gradually from RM266.68 million in FY16 to RM134 million in FY20 (page 34 of AR2020). Meanwhile, pre-tax profit of the division declined to RM26 million as compared to RM30.56 million in FY19.

The management expects further margin pressure in FY21 due to the lack of economies of scale.

- a) What are the other sectors that the manufacturing division can tap into to reduce the heavy reliance on the security printing business for the public sector?
- b) KFIMA aims to shift the manufacturing business towards developing integrated end-to-end, next generation solutions and services that can open new market opportunities and enhance its competitiveness (page 34 of AR2020). How does this renewed focus differ from current strategy?
- 4) The Bulking division plans to expand the capacity of its terminal in North Port, Port Klang, by a further 20,440 cbm thus ensuring that they are well placed to respond to growing demand in the future.

How much will this expansion exercise cost? Has KFIMA managed to secure off-take order for the additional capacity?

- 5) High crude oil price will encourage the use of alternative fuel including biodiesel. With the uncertainties in crude oil prices, what would be deemed as an approximate crude oil and CPO price that would render biodiesel less price competitive?
- 6) As at 31 March 2020, the Group has cash and bank balances of RM124.33 million and short term cash investments of RM171.6 million. The cash is placed as deposits at licensed bank at an average effective interest rate of 3.02% per annum.

There is, also, short term borrowings of RM33.5 million. The weighted average effective interest rate of the borrowings during the financial year was 4.74% per annum (pages 134, 135, 193, 201 of AR2020).

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- a) What is the average rate of return on the short-term cash investments?
 - b) Considering that cash and bank balances earned only 3.02% p.a compared to the higher rate of 4.74% p.a. charged for facilities, why did the Group not use the high cash and bank balances instead to pare down the facilities?
- 7) RM46.96 million of KFIMA's trade receivables have passed due for more than 120 days but not impaired. The overdue receivables made up 33.4% of KFIMA's total RM140.56 million receivables as of 31 March 2020 (page 189 of AR2020).

To which business segment does the overdue receivables relate to? How much of the 120 days-overdue receivables recovered to-date?

Corporate Governance Matters

- 1) Under Bursa Malaysia Main Market Listing Requirements Chapter 9, Appendix 9C Part A, Para. (30), a listed issuer is required to disclose in the Annual Report, a statement relating to the internal audit function of the listed issuer, i.e. whether the internal audit function is performed in-house or is outsourced and the costs incurred for the internal audit function in respect of the financial year.

We do not see the disclosure of internal audit cost in the Annual Report. Please explain.

- 2) On Practice 4.2 of the Malaysian Code on Corporate Governance, KFIMA stated it would seek annual shareholders' approval on Resolution 10 and 11 for the retention of independent directors who have served beyond 9 years.

The two independent non-executive directors (INEDs) Encik Azizan Mohd Noor and Dato' Rosman Abdullah have served the Board for 17 years and 16 years respectively. However, there is no mention of whether two-tier voting process will be conducted in the retention of the two directors.

Please explain why two-tier voting is not adopted.

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We would appreciate if the Board could present the points raised here, and their related answers, for the shareholders present at the forthcoming AGM. At the same time, we await a written reply as soon as possible for our records.

Thank you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Devanesan', is positioned above the printed name.

DEVANESAN EVANSON
Chief Executive Officer
DE/LCY/CCF/KFIMA/AGM2020

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