

28 September 2020

Badan Pengawas Pemegang Saham Minoriti Berhad
Tingkat 11, Bangunan KWSP
No. 3 Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

BY FAX/EMAIL

Attn: Mr. Devanesan Evanson

Dear Sir,

RE: 48TH ANNUAL GENERAL MEETING (AGM) OF KUMPULAN FIMA BERHAD (KFIMA)

We refer to your letter dated 23 September 2020 and append herewith our clarification on the following points and queries raised in your letter as follows:

Strategy and Financial Matters

- 1.(a) **Q.** *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.*

Does the Board foresee further impairment or reversal on PTNJL in FY21?

- A.** This is pursuant to the outcome of the judicial review by the Supreme Court, which overturned its earlier decision. There should not be any more impairment even if PTNJL lose both the ongoing suits as all the immovable assets located within the disputed areas have been fully impaired.

- 1.(b) **Q.** *What are the operational impacts arising from PTNJL due to the ongoing material litigation with the Indonesian government?*

- 1.(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)?*

- A.** At present, the operational impacts arising from the ongoing material litigation has been minimal as the local authorities have allowed PTNJL to operate its plantation operations within the HGU until full and final determination of the matters by the Indonesian courts.

In a worst case scenario, the current HGU will be revoked and will be replaced with a new HGU covering a smaller area of 2,809 ha as disclosed in the financial statements. As mentioned in 1(a) above, the disputed areas have been fully impaired in FY20.

1.(d) **Q.** *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?*

A. The issues are related to certain technical aspects of the CPKO plant's approval, which led to the suspension of the plant's operations pending the authorities' review. However, the issues have been resolved and the plant has resumed its operations in January 2020.

1.(e) **Q.** *Will the plantation division be able to turn around in FY21?*

A. FY20 results was impacted by one-off impairment amounting RM17.79 million. Without the impairment, the division would have posted a profit before tax of RM7.17 million. Given that all impairments relating to the matter has been made, the division should able to turn around their FY21 results.

2.(a) **Q.** *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.*

What is the age profile of KFIMA's trees in Malaysia and Indonesia?

A. Approximately almost half of the company age profile is under the prime-age mature, particularly in Indonesia, and the balance of 35.65% is under the young mature category in Malaysia. The future Group's yield per hectare is expected to improve further in tandem with the increase of prime mature areas.

Age profile FY2020	Malaysia (ha)	%	Indonesia (Ha)	%	Total	%
>19 Yrs- Past prime	124.00	1.49	-	-	124.00	0.85
10-18 Yrs-Prime Mature	973.82	11.77	6240.18	99.09	7,214.00	49.51
4-9 Yrs-Young Mature	5,138.22	62.10	56.78	0.90	5,195.00	35.65
Immature	2,037.00	24.64	-	-	2,037.00	13.99
Total	8,273.04	100.00	6,296.96	100.00	14,570.00	100.00

2.(b) **Q.** *What caused the lower OER in FY20? How does the OER compare to industry average?*

A. Lower OER recorded of 21.68% during the FY20 is attributable to high rainfall of more than 3,000 mm as compared to the previous year of 2,500mm which dampen the day to day estate operations and unrealised weight gained at the palm oil mill. Nevertheless, it is still higher than Malaysia and Sabah industry average in 2020 of 19.82% and 20.71% respectively.

3.(a) **Q.** *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.

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?

A. Manufacturing division refers to security printing, travel and confidential document printing. Security printing industry mainly relies on the Government market as its principal users. Brand protection market for private sector is limited and mainly driven by the authorities.

Margin pressure mainly coming from new competitors as well as lower demand for certain products.

3.(b) **Q.** *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?*

A. The shift for a Total Solutions approach is aimed at aligning the company's direction towards integrating physical documents with end to end solutions.

This strategy has been successfully adopted with the implementation of Malaysian driver's license (in 2013) and Immigration border pass (in 2014). Smaller-scale projects involving ID documents have been secured recently.

4. **Q.** *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?

A. The expansion was budgeted at approximately RM14.2 million and we have managed to secure few customers to take up the additional capacity.

5. **Q.** *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?*

A. Biodiesel consumption in Malaysia does not depend on the price of crude oil or CPO. It's a policy mandated by the government to stabilize CPO price and take the extra volume produce during bumper crop. It also cannot be considered as an alternative to fossil fuel. The current mandated blending ratio is 10% or B10. The mandate will be increased to 20% of B20 by mid of 2021 and at the final stage to be decided later at 30% or B30.

6.(a) **Q.** *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).

What is the average rate of return on the short-term cash investments (STCI)?

A. The average return on the STCI for the Group in FY20 is 3.28%.

6.(b) **Q.** *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?*

A. The Group cash and bank balances are mainly at Fima Corporation Berhad (FCB) Group level, while the borrowings which comprises of Bankers' Acceptance (BA) and Short-term Revolving Credit (STRC) are from a different entity (KFIMA – holding company).

7. **Q.** *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?

- A.** Almost 97% or RM45.4m of the 120 days-overdue receivables relate to amount owed by customers from the manufacturing segment (Percetakan Keselamatan Nasional Sdn Bhd (PKN)), mainly from government agencies. To date, almost all of the amount owed from the government agencies in relation to the above balance has been collected by PKN.

Corporate Governance Matters

1. **Q.** *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.

- A.** The Company has always disclosed the internal audit cost in the Company's Annual Reports. However, we have inadvertently omitted disclosures of the same in this year's Annual Report and the error is sincerely regretted.

The total costs incurred for the internal audit function in respect of the financial year ended 31 March 2020 was RM479,000 (FYE2019: RM505,205), comprising personnel costs, establishment expenses, admin and general expenses.

2. **Q.** *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.

- A.** Section 291(3) of the Companies Act, 2016 states that an ordinary resolution is passed on a poll taken at a meeting if it is passed by members representing more than half of the total voting rights of the members who are entitled to vote. In this regard, the Company will seek shareholders' approval on the retention of Encik Azizan Mohd Noor and Dato' Rosman Abdullah by way of poll voting as the 2-tier voting is still voluntary at this time.

There are notable benefits in retaining long-serving directors. The Board is satisfied that both Encik Azizan Mohd Noor and Dato' Rosman Abdullah possess deep and insightful knowledge of the Group's businesses and their contribution to Board deliberations have been invaluable. Further, Independent Directors make up 57% of the total composition of the Board, thus ensuring a balanced and impartial view at all Board deliberations.

The above points raised and its related responses will be presented at the forthcoming AGM.

Thank you.

Yours faithfully,

KUMPULAN FIMA BERHAD



FADZIL BIN AZAHA

Chief Financial Officer/Company Secretary