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KUMPULAN FIMA BERHAD

20 September 2021

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: 49TH ANNUAL GENERAL MEETING (AGM) OF KUMPULAN FIMA BERHAD (KFIMA)

We refer to your letter dated 13 September 2021 and append herewith our clarification on the following points and queries raised in your letter as follows:

Operational & Financial Matters

1.(a) ***Q.*** *Manufacturing division has shown a declining revenue and profit trend since FY2017.*

RM' million	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	233.3	140.8	134.8	134.0	101.9
Profit before tax	59.6	22.8	30.6	26.0	14.6

(Page 54 of Annual Report (AR) 2021)

What is the Group's strategic plan to address the manufacturing division's deteriorating financial performance, going forward?

A. The Group's strategic plan for manufacturing division going forward is as follows:

i. Focus on core competencies and improving our products to be competitive and relevant in the security printing industry.

ii. To meet future challenges, strengthen our product portfolio and value propositions to core customers by aligning product offerings with new technological and digital development in the Security Printing industry.

iii. Develop and strengthen customer base by offering new and enhanced product under a new business model expected to be secured directly or by partners through contract extension, new tender or initiatives under proof-of-concept models e.g., Travel Documents, Secure Label and Confidential Printing.

iv. Plans are in place to develop Subject Matter Expert (SME), improve operational facilities and intensify new product development.

1.(b) **Q.** *Covid-19 pandemic adversely impacted sales of the division's local travel, transport, foreign travel and confidential documents, totalling RM34.46 million in FY2021 (page 35 of AR 2021). Given the disruption caused by the pandemic and the uncertainties over the pace of recovery, how has the Group fine-tuned its product mix and prepared itself for a post-pandemic environment to ensure timely business recovery and sustainability?*

A. The Division was commercially and operationally affected by the pandemic, with a reduction in customer demand and was operating under capacity due to movement restrictions. Global logistical supply chain issues and cost increase have also added to the challenges being faced by the division.

We anticipate an increase in demand once restrictions ease and customer operations are normalized, and expect to regain some of the ground lost due to the pandemic.

We are currently focusing on products under existing contracts, clearing backlog orders, strategically building-up base stock to get ourselves ready to supply according to our contractual obligations once economic activities re-open again as usual.

In addition, we have proposed several COVID related solutions for the authorities to consider.

1.(c) **Q.** *The key trends and drivers for the next 5 years for the security printing industry will see the shift from physical security printing to digital IDs/documents, for example, a rise in card and mobile payments will impact the demand for physical banknotes, and e-passports to biometrics (facial recognition) will reduce the demand for IDs in printed forms (page 39 of AR 2021). What efforts are being taken to deal with the increasing threat from digitalisation on traditional security printing?*

A. We have foreseen the trend in the industry with the emergence of digital technology, which complements physical security printing. As such, the division has established collaboration with strategic technological partners to leverage on their technological expertise in our product offerings in tenders and projects participated.

In addition, the division has implemented end to end solutions that complement our physical security documents that relate to current trends in the industry.

The division will continue to develop product and solutions in-line with Malaysia's MyDIGITAL and Digitalization initiatives.

1.(d) **Q.** *Currently, the division mainly services the public sector i.e. Government agencies. What are the opportunities, if any, for the Group to diversify its customer base locally or regionally to reduce its dependence on the public sector?*

A. The public sector is still the main consumer of security and confidential documents and the division is well-recognized domestically. The private sector business is mainly on lower security products which is very competitive and brand protection products which are mainly for big multinational brands which are not based in Malaysia. Efforts have been made to penetrate regional markets, which have yet to bear any significant result. As such the focus has been on leveraging with strategic partners who have developed presence in specific regional markets and position our capabilities and competency as a manufacturer.

2.(a) ***Q.*** *The Group recorded a realised loss on foreign exchange of RM6.0 million in FY2021 (FY2020: gain of RM256,000) (Note 10 to the Financial Statements, page 172 of AR 2021).*

What were the reasons for the realised loss on foreign exchange?

A. As disclosed in Note 41(c) to the Financial Statements, page 213 of AR 2021, the Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Indonesian Rupiah ("IDR"), Papua New Guinea Kina ("PNGK") and United States Dollar ("USD").

During the financial year, the Group recorded foreign exchange loss mainly due to many unfavourable occasions where the local currency weakening against foreign currency as and when the collection and conversion were materialised.

2.(b) ***Q.*** *Given the large swing in foreign exchange loss/gain, how does the Group plan to better manage its currency exposure? What is the current hedging policy of the Group?*

A. The Group generally does not have any hedging practice at the moment. For PNG subsidiary, the Group is unable to do any hedging because the PNG central bank since the last few years had toughened the country's capital outflow controls in an effort to arrest depreciation of the Kina thus making it difficult for businesses in PNG to open a forex account.

To minimize IFC's exposure, any excess foreign currency will be immediately converted to local currency. The Group also does not hold and speculate on foreign currency.

3. ***Q.*** *Write-off of impairment loss on other receivables of RM10.1 million in FY2021 (FY2020: Nil) (Note 23 to the Financial Statements, page 193 of AR 2021).*

What actions have been taken to recover the said amount prior to writing off? What was it related to?

A. The amount relates to long outstanding sums owed to Fima Logistic Sdn. Bhd. ("FLSB"), a wholly-owned subsidiary of the Company's subsidiary, Fima Bulking Services Berhad for breach of a sale and purchase agreement (SPA) by the counterparties.

In 1998, FLSB initiated legal actions to claim back the payments made by FLSB to the counterparties pursuant to the SPA. Judgments were successfully obtained against them but FLSB has only managed to recover a small portion of the claim sum. Subsequently in FY2001, in view that the remainder of the outstanding sum remains unrecoverable, the Board of FLSB had agreed that the amount be fully provided as a doubtful debt.

The write-off has no impact on the Group's profit and loss in the current financial year.

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