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FIMA
KUMPULAN FIMA BERHAD

28 August 2024

Badan Pengawas Pemegang Saham Minoriti Berhad
Level 23, Unit 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

BY FAX/EMAIL

Attn: Dr. Ismet Yusoff

Dear Sir,

RE: 52nd ANNUAL GENERAL MEETING (AGM) OF KUMPULAN FIMA BERHAD (KFIMA)

We refer to your letter dated 23 August 2024 and append herewith our clarification on the following points and queries raised in your letter as follows:

Operational & Financial Matters

1. *The Group has continued to optimise the footprint of its bulking terminals in Port Klang and has kickstarted development at Tanjung Langsat to meet a growing demand base. It has also improved the yields of its biodiesel plant in Port Klang, while its subsidiary in Papua New Guinea had worked towards improving efficiencies within its value chain and released new product offerings (Page 15 of AR 2024).*

(a) ***Q.*** *What is the outlook for the bulking terminals in Port Klang and Butterworth, Penang respectively for FY2025?*

A. The outlook for bulking terminals in Port Klang is remain positive, driven by continuous support from major players in the renewable energy and edible oil markets.

Proactive discussions with existing and potential customers are ongoing to enhance long-term revenue for the Penang terminal and to reduce dependency on spot tank customers in the edible oil market segment.

Demand from the biodiesel market is expected to be low for FY2025. However, KFIMA has participated in a local tender mandate and is currently awaiting evaluation.

(b) ***Q.*** *How significant are the revenue and profit contributions from the Group's biodiesel plant in Port Klang and its subsidiary in Papua New Guinea?*

A. In FY2024, our biodiesel operation in Port Klang contributed 8.2% to the Group's total revenue, while our food subsidiary in Papua New Guinea, International Food Corporation (IFC), contributed 25.6%. IFC contributed 10.5% to the Group's profit before tax (PBT) during the year, whereas the biodiesel segment recorded a pre-tax loss of RM1.1 million.

2. *Other key factors contributing to the overall increase in the revenue of Bulking division included expansion of tankage capacity, favorable product mix, tank occupancy and rental rates, and improved throughput volumes (Page 20 of AR2024).*

(a) **Q.** *What is the percentage increase in tankage capacity and is there any plan for further increase in capacity in the short or medium term?*

A. The tankage capacity increased by 64,750 cubic meters (or 15%) in FY2024 compared to FY2023. An additional increase of 45,000 cubic meters at Tanjong Langsat and 46,000 cubic meters at Port Klang are expected to be operational in the next financial year (FY2026).

(b) **Q.** *What is the current tanker occupancy?*

A. Our current tank occupancy rate is 87%.

(c) **Q.** *What is the average increase in rental rates and the outlook for FY2025?*

A. Rental rates for FY2025 are expected to see moderate increases, aligned with market conditions and contractual agreements.

(d) **Q.** *What is the percentage increase in throughput volumes and the outlook for FY2025?*

A. The percentage increase in throughput volumes is expected to be around 10% to 15%.

3. *Food division registered a revenue of RM168.19 million in FY2024, a decrease of 9.6% compared to RM186.10 million recorded in the prior year. The decline was primarily driven by underperformance of the tuna segment, both in export and domestic canned tuna arising from supply chain constraints encountered in Q1 of FY2024 (Page 20 of AR 2024).*

(a) **Q.** *Was the underperformance of the tuna segment due solely to supply chain constraints encountered and not also due to lower demand or other factors?*

A. The underperformance of the tuna segment in FY2024 was primarily due to supply chain constraints in Q1, largely influenced by the El Niño phenomenon, which caused the migration of tuna from PNG waters to cooler regions. This led to low tuna catches in the first quarter, further worsened by the high demand and limited supply, as reflected in the elevated tuna price of approximately USD2,050/MT in April 2023 (December 2022: USD1,700/MT).

However, demand for tuna, both frozen loins and canned, remained strong in export and domestic markets throughout the period. Tuna catches improved in the subsequent quarters of FY2024, reflecting a recovery in supply conditions.

(b) **Q.** *Going forward, how would KFIMA be able to manage supply chain constraints if the adverse situations were to persist?*

A. To manage potential future supply chain constraints, KFIMA, through its subsidiary IFC, has proactively engaged an external partner, to charter vessels under IFC's fishing license. Since November 2023, two vessels have been operational, providing a more stable and reliable supply of frozen tuna.

Additionally, IFC has completed the construction of a new cold room, significantly increasing its fish storage capacity, which will further support consistent tuna supplies throughout the year.

(c) **Q.** *What is the outlook for the tuna segment for FY2025?*

A. Although the segment experienced positive revenue growth in Q1 FY2025, the division is still facing some challenges, such as intense competition from lower-cost imported products, currency fluctuations, rising transportation costs, and increases in raw material prices.

In response, the division will continue to focus on operational efficiency, productivity and margin improvements, and cost control as well as emphasising on quality, service and delivery.

4. *Manufacturing division's revenue declined by RM67.99 million from RM129.56 million to RM61.57 million in FY2024 due to the marked decline in sales volumes across most product segments, particularly travel, transport and confidential documents (Page 20 of AR 2024).*

Q. *What is the outlook for Manufacturing division for FY2025? Which segment is expected to improve significantly and what are the key drivers or catalysts?*

A. Despite a challenging environment, the manufacturing division, is strengthening its core security printing operations, particularly the confidential printing segment which is expected to contribute positively to the division's revenue growth. This initiative aligns with the acquisition of Digital Printing Machines, which will support the fulfilment of a major contract secured for FY2025, especially the recent RM93.9 million contract from Ministry of Education. Additionally, this expansion opens up further opportunities for domestic and international confidential printing projects.

The travel documents segment is expected to see a moderate increase in revenue, driven by rising orders due to pent-up demand. This demand will require an increase in stock levels to meet needs such as foreign worker registration, cross-border movements, and foreign passport demands, particularly within the Immigration Department.

In the transport segment, which is targeted for digitalization initiatives, the division is expected to have stable supply requests throughout the first three quarters of FY2025. As the authorities plan a phased implementation of these initiatives, there is potential for a 6 to 12 month contract extension.

5. *Yield Per Hectare (MT) of oil palm plantation has been declining in the last 3 financial years (FY2024:14.18, FY2023:14.95, FY2022:16.12) while Oil Extraction Rate (%) has been improving over the same period (FY2024: 20.72, FY2023: 20.41, FY2022: 21.10) (Page 44 of AR 2024).*

Q. *What were the reasons for the decline in Yield Per Hectare (MT) and improvement in Oil Extraction Rate? How do these indicators of KFIMA compare to the industry standards? What are the expectations of KFIMA's Yield Per Hectare (MT) and Oil Extraction Rate in FY2025?*

A. <u>Group Yield per Hectare</u>

The main reason for the decline in Group yield per hectare is the declining production from our largest estate, PTNJL, which accounts for nearly 59% of the total Fresh Fruit Bunches (FFB) produced by the Group and 38% of the Group's total mature area. Currently, over 90% of the total PTNJL area consists of old palms (4,890.25 hectares out of 5,334.34 hectares) with a palm age profile of 20-22 years, leading to reduced yield performance.

Another contributing factor is the addition of new mature areas and low production from rehabilitation areas. The newly mature areas, which include 1,218.76 hectares representing 9% of the Group's mature area, are not yet at peak productivity.

Additionally, the rehabilitation areas from two of our estates, totalling approximately 1,153.65 hectares (representing 8% of the Group's mature area), were taken over by the Group in FY2018 and FY2021. These areas are still undergoing recovery and have contributed only 6% of the total FFB produced by the Group. The rehabilitation areas are scheduled for replanting in FY2026 and FY2027, which we expect will eventually improve production.

In FY2024, our yield per hectare was 14.18 MT, approximately 10% lower than the industry average of 15.79 MT per hectare. However, we anticipate that the Group's yield performance will improve in FY2025, driven by enhanced FFB evacuation from our Sarawak estate and the fact that our estates in Peninsular Malaysia are moving towards their prime age.

<u>Oil Extraction Rate (OER)</u>

Towards the end of FY2023, our PTNJL mill installed a decanter at the clarification station and carried out modifications to the sludge pit to improve oil recovery from FFB processing. This project has been successfully executed, leading to an improvement in OER and a reduction in oil losses in the final effluent from 0.79% in FY2023 to 0.55% in FY2024.

Our OER of 20.72% in FY2024 is in line with the industry average. We remain focused on achieving our internal target of 21.0% by ensuring that high-quality crops are delivered to the mill. As of Q1 FYE2025, our current OER stands at 20.90%.

<u>Sustainability Matters</u>

6. *Under the Plantation division, in relation to human capital, among the outcomes are:*

i. Lost Time Injury Frequency Rate (LTIFR):
- *Malaysia: 4.27 (FY2023: 1.44)*
- *Indonesia: 19.17 (FY2023: 11.82)*

ii. *Lower training hours at 4,669 hours (FY2023: 6,233 hours) (Page 46 of AR 2024).*

(a) ***Q.*** *What were the reasons for the increase in LTIFR and what measures have been taken to improve it?*

A. The increase in Lost Time Injury Frequency Rate (LTIFR) in both Malaysia and Indonesia was primarily due to incidents involving falling objects, tools, and physical accidents during work.

To address this, we have implemented several measures to improve our LTIFR:

i. **Incident Investigation and Reporting:** A thorough review of incident investigation processes has been undertaken to ensure that root causes are accurately identified and corrective actions are effectively implemented.

ii. **Safety Audits and Review of SOPs:** Regular safety audits and inspections have been intensified to identify potential hazards and enforce compliance with safety protocols. In addition, the division has also embarked on a review of SOPs to update and enhance safety measures.

iii. **Enhanced Safety Training:** Comprehensive safety training programs tailored to the operational in both Malaysia and Indonesia.

As a result of these efforts, only 2 injuries were recorded by the Plantation division in Q1 FY2025 compared to 17 injuries in Q1 FY2024, reflecting the positive impact of these measures.

(b) ***Q.*** *Why was there such a significant drop in training hours? Would it be increased in FY2025?*

A. The decrease in training hours from 6,233 in FY2023 to 4,669 in FY2024 is primarily due to a reduction in training hours at our Sarawak estate, as the number of newly recruited workers was lower in FY2024. In addition, more training was conducted in FY2023 because many of the estates had acquired several new equipment for mechanization that required extensive training.

The division recognizes the importance of continuous learning and development and plans to increase training hours in FY2025, with a focus on specific areas such as safety, technical skills and ESG-related topics.

We will be introducing more targeted and intensive training programs that address the specific needs of our workforce, ensuring that employees are well-equipped to meet the demands of their roles

7. *Sustainability targets (including climate-related targets) are integrated into the Group MD's KPIs in FY2024 which is then cascaded down to divisional management. Since 2018, the Group has reported on its climate-related performance in both its Sustainability and Annual Reports. Our sustainability strategy has been progressively refined to meet the evolving needs and expectations of our stakeholders (Page 80 of AR 2024).*

Q. *What are the major KPIs, targets and achievements made in FY2024?*

A. In FY2024, the Group continued to work towards aligning its operations with sustainability objectives. The key KPIs, targets, and achievements include:

a. Climate-Related KPIs:

i. Renewable Energy Integration: Increased solar power capacity by 82.3%, from 384 kWp to 700 kWp.

ii. Carbon Emissions Reduction: Reduction in carbon emissions y-o-y across the Group.

	FY2024	FY2023	Achievement
Scope 1	33,153	32,389	2.0% increase y-o-y
Scope 2	4,150	4,238	2.0% reduction y-o-y
Scope 3	1,281	1,421	9.9% reduction y-o-y

b. Resource Efficiency/Intensity KPIs:

i. Energy Efficiency: Implementation of energy efficiency efforts across key facilities such as tank insulation and efficiency/intensity projects. For further details, please refer to the Energy Management section on pages 91 to 92 of the Sustainability Report.

ii. Water Usage: Optimized water management practices, leading to a 41.7% improvement in water intensity for FFB processed in Indonesia operation.

c. Social KPIs

i. Employee Engagement: Enhanced employee engagement

	FY2024	FY2023	Achievement
Turnover rate	17.3%	30.1%	12.8% improvement y-o-y
Average training hours per employee • Senior Management • Management • Executive • Non-executive	36.67 50.56 33.11 2.38	15.36 27.84 20.73 3.28	Out of the four employee categories, three recorded an improvement in average training hours.
Lost Time Injuries Frequency Rate (LTIFR)	7.33	4.77	53.7% higher y-o-y

d. Stakeholder Engagement and Governance KPIs:

i. ESG Integration: Further embedded Environmental, Social, and Governance (ESG) criteria into investment and decision-making processes.

ii. Climate-Related Disclosures: Continued transparent reporting of climate-related performance in the Sustainability and Annual Reports, addressing key stakeholder concerns.

iii. Sustainability Strategy Refinement: Ongoing refinement of the Group's sustainability strategy to better align with evolving stakeholder expectations.

8. *In the Sustainability Statement, under Risk Management, among certain actions pending or in progress are:*

(i) Develop internal climate-risk reporting formats. (pending)

(ii) To further embed climate-risk in risk management and decision-making processes (work in progress) (Page 81 of AR 2024).

Q. *When are both the above actions targeted to be implemented?*

A. At this time, there are no specific timelines for the implementation of these actions. We are looking to develop internal climate-risk reporting formats that aligns with the diverse nature of our operations, and stakeholder expectations. Timelines will be defined as the project progresses.

We are also integrating ESG considerations, which includes climate risk, into our risk management and decision-making processes. This involves aligning some aspects of our operations. As we move forward, we will set clear timelines to guide our efforts and ensure effective implementation.

9. *The Group's solar power capacity increased by 82.3% from 384kWp to 700kWp. Renewable energy sources make up 3.9% of the Group's total energy usage in FY2024 (Page 81 of AR 2024).*

Q. *What is the Group's targeted percentage of renewable energy sources to total energy usage in FY2025? What is the ultimate targeted percentage and the timeline to achieve it?*

A. Currently, the Group has not set a specific target percentage of renewable energy sources for FY 2025 or an ultimate target percentage although the broader strategy is to explore and expand the use of renewable energy wherever feasible. As part of our ongoing efforts, we actively assess various renewable energy options and evaluate our energy mix, foremost where it can enhance our efficiencies and overall productivity.

Corporate Governance Matters

10. *Practice 5.2 of Malaysian Code on Corporate Governance (MCCG) states that at least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.*

KFIMA's response
Departure. The Board comprises 7 Directors, of whom 3 are Independent Non-Executive Directors (including the Chairman of the Board) (INED), 3 Non-Independent Non-Executive Directors and 1 Executive Director. Independent Directors constitute 43% of the Board. (Page 32 of CGR 2024)

Q. *What are the challenges/issues faced by the Company in sourcing for Independent Directors? What is the timeline set by the Company to apply Practice 5.2?*

A. There are no significant challenges or issues in sourcing Independent Directors for the Company. The current composition of Independent Directors fully complies with Paragraph 15.02(1) of the Bursa Listing Requirements, which mandates that at least two directors or one-third of the board, whichever is higher, must be independent.

At this time, no specific timelines have been set for the application of Practice 5.2. The Board believes that the current composition of Independent Directors is sufficient to ensure an effective system of checks and balances. However, the Board will continue to review its composition regularly to ensure that the level of independence is maintained and not compromised.

11. *Practice 5.9 of MCCG states that the board comprises at least 30% women directors.*

KFIMA's response
Departure. The Board currently comprises 7 Directors, of whom 2 are women (or 29%). The Board has not set any specific targets for gender diversity for the Company (Page 41 of CGR 2024).

(a) **Q.** *What are the challenges/issues in sourcing for more women directors? What are the plans to have at least 30% women representation on the Board?*

A. The Company currently does not face specific challenges in sourcing for women directors. We already have two women directors on the Board, both of whom are major shareholders and have been long-term members of the Board. While the Board has not set a specific target for achieving 30% women representation, the Board will continue to assess its composition regularly to ensure it aligns with the Company's strategic needs. Diversity, including gender diversity, is an important consideration in the recruitment of new directors.

(b) ***Q.*** *What benefits has the board experienced from having two women among its members (though yet to comply with at least 30% women directors)? How has the board's performance been impacted in relation to these benefits?*

A. The presence of two women directors on the Board has provided valuable insights from a shareholder's perspective, given their significant shareholding and long-term involvement with the Company. Although the Board has not yet achieved 30% women representation, their perspectives have contributed to more informed and balanced discussions, enhancing the overall decision-making process.

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