

27 August 2025

Badan Pengawas Pemegang Saham Minoriti Berhad
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BY FAX/EMAIL

Attn: Dr. Ismet Yusoff

Dear Sir,

RE: 53rd ANNUAL GENERAL MEETING (AGM) OF KUMPULAN FIMA BERHAD (KFIMA)

We refer to your letter dated 22 August 2025 and append herewith our clarification on the following points and queries raised in your letter as follows:

Operational & Financial Matters

1. *The Bulking division's core liquid bulking and logistics operations performed strongly, with a 20.2% increase in revenue. This growth was driven by higher contributions from technical fats, used cooking oil, and various non-core products. Additional factors supporting the performance included expanded tankage capacity, an improved product mix, higher tank occupancy and rental rates, as well as increased throughput volumes. (page 23 of AR 2025)*

(a) **Q.** *How confident is the Management that the good performance of the Bulking division may sustain or even be surpassed in FY 2026? If the Management is positive, please elaborate on the key drivers or factors.*

A. Management remains cautiously optimistic that the Bulking division's strong performance can be sustained into FY2026. Demand for technical fats, used cooking oil, and specialty products continues to be resilient, supported by regional trade flows and customer requirements. Key drivers include:

- Higher utilisation of our expanded tankage capacity.
- Steady throughput volumes from long-term customers and diversified product mix.
- Ongoing focus on operational efficiency, cost optimisation, and service reliability.
- Favourable rental rates environment, underpinned by healthy demand for storage space in the region.

We have been focusing on securing long-term contracts (> 3 years) with our clients, and to date, approximately 70% of our tanks are under such arrangements. This provides stability and minimises volatility in occupancy rates.

That said, Management continues to monitor global trade dynamics, commodity flows, and regulatory changes to ensure sustainable growth.

(b) **Q.** *What is the current utilisation rate of the tankage? What was the last percentage increase in expanded tankage capacity and what are the plans for further increase in capacity?*

A. The current utilisation rate of the Group's tankage is approximately 85%, reflecting strong demand across multiple product segments. The most recent capacity expansion at Tanjung Langsat added 21 tanks with a total volume of 45,900m³ representing an

8% increase in June 2025, which has already contributed positively to occupancy and throughput.

Looking ahead, the Division is exploring further incremental expansions in strategic locations, as well as optimising existing land, guided by customer demand and long-term contracts to ensure that new capacity is effectively absorbed.

(c) Q. *What was the average percentage increase in rental rates? On average, how often can the Company revise the rates?*

A. The recent rental adjustment was made in line with market conditions, product type, and demand-supply dynamics. Reviews are done annually or at contract renewal, ensuring we stay competitive while sustaining value for our customers and shareholders.

2. *Indonesia's palm oil sector is facing stagnating production growth amid increasing domestic and global demand. The government's continued expansion of its biodiesel mandate has raised local consumption, notably for energy use. The Indonesian Palm Oil Association ("GAPKI") projects 2025 production to reach 53.6 million tonnes. However, exports are expected to decline to 27.5 million tonnes (2024: 29.5 million tonnes), reflecting growing domestic demand and supply constraints. (page 27 of AR 2025)*

Q. *To what extent would the Group be negatively impacted by these issues/challenges, and what measures would the Group take to manage them?*

A. The Group's Indonesian subsidiary, which operates a palm oil mill and sells CPO and CPKO domestically, is expected to be directly affected by recent policy developments and market dynamics. Selling prices may face some pressure from higher export duties and levies, as well as the government's policy shift to prioritise domestic consumption under the expanded biodiesel mandate. Nonetheless, stronger domestic demand provides a relatively stable outlet for our products.

To address these challenges, the Indonesian operations remain focused on operational efficiency and cost management. Key measures include optimising estate productivity through improved agronomic practices, adopting mechanisation and digitalisation where feasible, and exercising prudent cost control across both estate and mill operations. We are also enhancing our yield improvement programmes to strengthen long-term sustainability and competitiveness.

Meanwhile, our Malaysian plantation operations, which are limited to FFB sales without milling facilities, are expected to benefit indirectly from supply constraints in Indonesia. The anticipated tightening of exports is likely to support international palm oil prices, translating into firmer FFB prices in Malaysia. Taken together, the opposing impacts in both geographies are expected to balance out, and as such, the overall impact on the Group is expected to be minimal.

3. *Biodiesel segment faced a difficult operating landscape in FY2025, with persistent market headwinds weighing on its performance. For the year, this segment recorded a pre-tax loss of RM1.90 million, primarily due to idle plant capacity and overhead costs. Recent reports indicate that the outlook for biofuels and biodiesel markets remains robust, supported by increasing mandates in sectors like aviation and maritime. (page 33 of AR 2025)*

(a) Q. *What exactly were the headwinds and factors that caused the segment to perform so badly that the Group recorded zero sales in FY2025 compared to RM52.4 million in FY 2024 (as stated on page 183 of AR 2025)?*

A. The Biodiesel segment's weak performance in FY2025 was mainly due to a combination of structural and market headwinds, including:

- **Feedstock processing requirements** – Our current plant configuration is not fully optimised to handle certain types of waste feedstock required for the European market. To address this, we plan to invest in a pretreatment facility that will broaden our feedstock flexibility and enhance competitiveness going forward.
- **Unfavourable market economics** – Declining price spreads between feedstock (palm oil) and biodiesel selling prices made production unviable.
- **High input costs** – Volatility in crude palm oil (CPO) prices, coupled with elevated energy and utility costs, further compressed margins.
- **Weak demand conditions** – Demand in key export markets remained subdued due to changing policies, oversupply, and competitive pricing pressures from other biodiesel-producing countries.
- **Idle capacity impact** – With zero sales during the year, fixed overhead costs and depreciation of the biodiesel plant weighed heavily on segment results.
- **Regulatory changes** – Revisions to the GHG calculation methodology under ISCC certification, particularly changes in emission factors, reduced our GHG savings to below the 80% threshold typically required by European customers.
- **Domestic market access** – The Group did not secure a Malaysian Government biodiesel supply mandate in FY2025.

As a result of these factors, the segment recorded a pre-tax loss of RM1.90 million in FY2025.

(b) **Q.** *Considering that recent reports indicate that the outlook for the biofuels and biodiesel markets remains robust, what is the probability of the segment turning around and being profitable in FY2026? In view of this, what are the Management's plans in evaluating strategic options to enhance the segment's viability?*

A. Management acknowledges that the medium- to long-term outlook for the biofuels sector remains promising, particularly with regulatory mandates expanding into aviation, maritime, and industrial sectors. However, the timing and magnitude of a turnaround in FY2026 will depend heavily on feedstock price stability, government policy support, and market competitiveness.

To position the segment for recovery, Management is actively evaluating strategic options, including:

- Selective plant reactivation when market conditions justify positive margins.
- Exploring new offtake opportunities with potential long-term customers in both domestic and regional markets.
- Diversification into emerging biofuel applications (e.g., producing feedstock for sustainable aviation fuel feedstock blending).
- Collaborations or strategic partnerships to share risks and optimise utilisation of existing biodiesel assets.
- Management remains prudent and will only resume significant operations when sustainable margins and market demand provide a clear path to profitability.

Sustainability Matters

4. *For waste management, the Group reuses and recycles its resources; biomass residues such as palm kernel shells and fibre residues are utilised as a fuel source for steam and electricity generation while empty fruit bunches ("EFB") are applied in the field as organic fertiliser to enrich soil health and reduce chemical input. (page 62 of AR 2025)*

Q. Are all its resources, such as biomass residues, totally utilised for the Group's use or a certain percentage sold to others to generate some revenue? Please provide some figures and what are the plans going forward?

A. Our palm oil mill in Indonesia operates on a circular, zero-waste principle. Palm kernel shells, mesocarp fibre and shredded EFB are used as boiler feedstock in a palm-biomass co-generation system that meets 100% of the mill's electricity and heat demand; and the surplus electricity supports nearby workers' quarters, schools, mosques and government facilities.

We do not sell these biomass residues externally, and there are currently no plans to commercialise biomass residues. In instances where EFB volumes exceed internal requirements, the surplus is distributed to smallholders as part of the mill's value-added initiative and community support.

5. *Although the Group's business operations continue to rely predominantly on fossil fuels for transportation and equipment, it actively integrates renewable energy sources such as solar power and biomass where feasible. These alternative energy solutions help diversify its energy portfolio and support its commitment to reducing its carbon footprint. In FY2025, renewable energy accounted for 3.36% of the Group's total energy usage.*

Total renewable energy consumption decreased from 3,846 MWh in FY2024 to 3,444 MWh in FY2025. (page 64 of AR 2025).

(a) *Q. Total renewable energy accounted for only a small 3.36% of the Group's total energy usage. What is the targeted percentage and how would the Group aggressively increase the percentage, and which are the areas of focus?*

A. Renewables energy contributed approximately 3.36% of the Group's energy in FYE2025 (from biomass and solar). While the Group has not set a fixed long-term target, we actively seek to integrate renewable energy sources such as solar power and biomass wherever operationally and financially feasible. Our near-term areas of focus include:

- **Solar PV expansion** – Ongoing initiatives to expand solar PV capacity, with continued evaluation of site-specific opportunities across our business units where infrastructure and load profiles are suitable.
- **Biomass efficiency enhancements** – Upgrading Empty Fruit Bunch (EFB) press to improve biomass fuel quality (by lowering moisture content within the EFB). These improvements are expected to enhance boiler performance, with measurable gains associated with this upgrade anticipated in Q3 of FY2026.
- **Energy efficiency through low-emission mechanisation** — Adoption of solution such as battery-operated wheelbarrows across our plantation estates to reduce dependence on fossil fuels.

(b) *Q. What were the main reasons for the decrease in renewable energy consumption and how would the Group specifically address each of the sources of renewable energy?*

A. The reduction in renewable energy (-375 MWh or -12.4%) was attributable to:

- Lower volumes of available biomass, which is consistent with lower volumes of EFB output (30,008 MT in FYE2025 vs 33,540 MT in FYE2024).*
- Lower solar power generation by 27 MWh (or 3.3%) to 789 MWh, due to temporary site-level downtime (e.g., inverter faults at the Head Office in Q3/Q4 of FY2025, and cabling/monitoring disconnections during renovations at the Bulking terminal in Port Klang). Most of the repairs/renovation works have been completed subsequent to the year-end.*

6. *We note that on page 78 of AR 2025, there were two (2) harassment cases reported through formal reporting channels in FY2025 as compared to none in FY2024.*

Q. What is the nature of the reported harassment cases and what is the outcome from any investigations carried out? Were there any changes or tightening of policies or regulations following the reported two cases?

A. The nature of the two (2) harassment cases noted in our Annual Report (page 78) was workplace related. While we do not disclose case specifics to protect the privacy of those involved, both matters were promptly investigated in accordance with our grievance procedures and have been fully resolved. Disciplinary actions commensurate with the findings were taken.

The Company is committed to a safe, respectful, and positive workplace, and take these matters very seriously. We have a robust framework in place i.e. clear reporting channels, annual training to build awareness of ethical conduct and appropriate workplace behaviour, and reminders to managers of their accountability for timely escalation and support.

We will continue to enhance our training, communications and oversight, and to monitor and review our practices to uphold high standards to ensure a respectful and conducive workplace for all our employees.

Corporate Governance Matters

7. *Practice 5.2 of Malaysian Code on Corporate Governance*

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

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 33 of CGR 2025)

Q. When is the Company targeting to apply Practice 5.2 to have at least half of the board comprising independent directors?

A. As rightly pointed out, the Board currently comprises 7 Directors and the 3 independent directors (including the Chairman) make up 43% of the Board. This composition complies with Paragraph 15.02(1) of Bursa Malaysia's Main Market Listing Requirements and the Company's Constitution, which requires at least 2 or 1/3 of the Board - whichever is higher - to be independent. The Board is satisfied that the current composition provides effective checks and balances, and that all INEDs continue to demonstrate independence in judgement.

That said, the Board is committed to further enhancing its independence and performance to support the effective discharge of its responsibilities and the delivery of the Company's strategic priorities. While no fixed date is set (to ensure the right candidate fit and an orderly succession), the Board has mandated the NRC to:

- Keep independence under continuous review as part of the annual Board evaluation; and
- Recommend either (i) the appointment of an additional INED subject to identification of a suitably qualified candidate; or (ii) the replacement of a non-independent director upon vacancy or retirement (as the case may be), so that the number of INEDs comprises >50% of the Board, without compromising the Board's effectiveness, skills mix and/or diversity.

Any changes in the Board composition will be announced in accordance with Bursa Malaysia's disclosure requirements.

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

Thank you.

Yours faithfully,
KUMPULAN FIMA BERHAD



FADZIL BIN AZAH
Group Chief Financial Officer/Company Secretary