

Company's answers to the questions from the Minority Shareholder Watchdog Group vide letter dated 18th July, 2016

Strategic / Financial

Q1 The Group currently owns and operates three (3) palm oil mills with a total FB processing capacity of 1.5 million MT per annum. In FY2016, the Company achieved a throughput of 1.33 million MT of FFB inclusive of the external crop purchases. The FFB production of the Group for FY2016 was 299,455 MT. As disclosed on Page 26 of the Annual Report, the mills are now accepting FFB from more than 45 collection centres / dealers, 226 smallholders and 75 estates.

- (a) What was the percentage of the external crop purchases to the total FFB processed by the mills in FY2016 ?
 - (b) What are the measures taken to ensure the quality of the FFB supplied by the external suppliers in order to maintain high oil extraction rate ?
 - (c) Besides the quality issues, what other challenges faced by the Company in dealing with the wide range of suppliers ?
 - (d) Would the dependence on the external suppliers be reduce in the coming years ?
- A1
- (a) Out of the 1.33 million MT of FFB processed, 81.5% of which were purchased from external crop suppliers.
 - (b) In order to maintain high oil extraction rates, stringent FFB grading are carried out according to MPOB's grading guidelines upon receipt of FFB from suppliers to ensure quality of FFB. In addition, we are cooperating with MPOB's officer in educating FFB suppliers on crop quality issues.
 - (c) Besides quality issues, our Group is also facing stiff competition for crop supply in the regions where our mills operate. Stiff competition normally leads to squeeze in profit margin. During high crop season, our mills have tried our best to receive as much crop as possible to support our suppliers, especially smallholders.
 - (d) At this moment, we foresee external crop supply will remain significant to our milling operations in the coming years.

Q2 As reported in the Chairman's Statement, the biogas engine system in all the three mills have commenced operations and various steps have been taken to improve the return of these biogas projects.

What would be the expected cost saving, accreted revenue and the return from these biogas projects ?

A2 With the implementation of gas engine system in our three mills, it helps to reduce usage of fossil fuel and palm kernel shell in generating electricity power required for operations. In the financial year 2016, the Group's sale of palm kernel shell to third parties has contributed RM8 million to the Group's revenue. In the near future, we shall also be selling renewable energy to TNB.

Q3 As reported in Note 16 to the Financial Statements, the Company has temporarily suspended the manufacturing of bio-fertilizers.

What was the reason for the suspension and would the operations expected to resume in near future?

A3 The fertilizer manufacturing operations under Kim Loong Evergrow Sdn. Bhd. has been taken over by its holding company, Kim Loong Palm Oil Mills Sdn. Bhd., and the production volume has been downscaled to process bio-waste from mills to value-added products for use in our own estates. At this moment, it is not expected to resume any activity under Kim Loong Evergrow Sdn. Bhd. in the near future.

Q4 As there was no mention about the tocotrienols projects in the FY2016 Annual Report, could the Board update the shareholders on the progress of the project ?

A4 On the Tocotrienols Project, our research team is still carrying out the research work to achieve commercial scale operations. The Group will only commence production after achieving commercial production capacity and establishing marketing strategy. We do not expect significant contribution from the Tocotrienols Project to the Group's revenue in the near future.

Corporate Governance

Q1 The recent amendments to Chapter 9, Paragraph 9.21(2) of the Main Market Listing Requirements requires companies to publish the summary of key matters discussed at the AGMs onto the companies' website for AGMs held on or after 1st July, 2016. In line with this, we hope the Board would publish the summary of proceedings for this AGM on the Company's website.

A1 The Company will publish a summary of key matters discussed at the AGM onto its website. The Board had previously deliberated and decided not to publish a summary of the proceedings of the AGM on the Company's website.

Q2 We also hope the Board would publish the Memorandum and Articles of Association of the Company for the benefit of all shareholders.

A2 The Board will consider at its meeting on the matter of publishing the Memorandum and Articles of Association on the Company's website.

Pertinent questions and answers relating to the Audited Financial Statements of the Company and the Group for the year ended 31st January, 2016 at the Annual General Meeting

Q1 How is the profit from the milling and plantation like? Is the profit related to CPO price?

A1 Milling forms smaller portion of the Group's operations compared to the plantation. Due to the fall in the CPO price, the plantation has suffered a reduction in profit. It so happens that profit from the milling is better than the plantation last year due to several factors -

- (a) The oil extraction rate of the FFB has increased in the 2nd half of the FY2016.
- (b) Increase in FFB supply in the region leading to lesser competition in FFB pricing and increase in FFB intake.
- (c) High production level, lower FFB cost and increasing OER in the 2nd half of the FY2016 resulted in increased profit margin.
- (d) Palm kernel extraction activities and sale of shell have also contributed more profit with higher FFB intake.

Q2 What sort of timeframe of the possibility to set up a palm oil mill in Sarawak as stated in the Chairman's Statement?

A2 The Group is in the process of application and it is difficult to fix a timeframe. Should we get the approval, it will take 2 years to set up the mill.

Q3. Noted that dividend payout is more than 90% of the profit attributable to the owners of the Company. Is it a new policy?

A3 Internal policy is to pay out at least 30% of the profit attributable to the owners of the Company as dividend. The Group has huge cash and bank balances and the profits from the plantation and milling are good. As such, the Company pays out a special dividend this year.

We cannot confirm or foresee what kind of dividend in the coming years because of the uncertain trend of the CPO price and the milling profit.

Q4. Noted that the Group is depending a lot on suppliers for FFB. What is the percentage of outside FFB received by the mills?

For Sabah mills, we accept roughly 70% outside crop whereas for Kota Tinggi mill, about 95% outside crop.

Q5. On page 107, Note 15, what is the biological assets of RM1.6 million written off?

A5 It is the cost written off for oil palms that have been replanted during the year.

Q6. On page 113, Note 17, why is the finished goods for 2016 of RM32,804,099 is so much higher compared to 2015 of RM11,218,372?

A6 Total carrying amount of finished goods for 2016 is RM34.2 million as compared to 2015 of RM17.3 million. The increase of RM16.9 million is mainly contributed by higher CPO stock of 7,600 MT at average carrying value of RM2,100 MT. In the first quarter and the coming second quarter of 2017, the stocks will come down significantly.