FGV

# Key Matters Discussed

## 12th Annual General Meeting (AGM)

## Friday, 19 June 2020

**FGV HOLDINGS BERHAD**
Registration No. 200702042133 (Company No. 800165-P)

**12TH ANNUAL GENERAL MEETING**
**19 JUNE 2020**

**QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP TOGETHER WITH RESPONSES FROM THE COMPANY**

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## STRATEGY & FINANCIAL MATTERS

**Question 1:**

It was reported in The Edge Financial Daily on 21 April 2020 that FGV has voluntarily ceased operations at five palm oil mills within the Sahabat region in Lahad Datu, Sabah, after police enhanced the Movement Control Order (MCO) in the area following the detection of 11 COVID-19 cases.

a) Besides the five palm oil mills operations that were affected by the MCO, how has the MCO impacted the Group's other operations?

b) Did the Group's plantations suffer any crop loss due to the MCO? What is the estimated crop loss suffered during this period?

**Answer 1:**

a) *Other than the five mills closed in Sabah, there were six mills in Peninsula that were voluntarily closed from 22 March 2020 to 7 May 2020, all FGV's other mills continued operations, albeit at reduced levels, due to the limitations imposed during the MCO period.*

*The Group's other businesses, namely sugar and logistics, were classified "essential services" and were therefore also operating. The bulking business under the logistics sector was not affected by the MCO at all. Having said that, the transport business under the logistics sector was impacted during the period of the MCO. Restrictions on movements at the beginning of the MCO resulted in the significant reduction in transportation of goods such as fertiliser, minerals and industrial equipment as manufacturers reduced production. Also, the plantation sector was operating at 50% capacity.*

b) *The MCO which started on 18th March 2020 impacted operations negatively since manpower in estate and mill operations was reduced to 50%. The total FFB loss recorded from March to May is estimated at about 120,000 MT excluding crop losses from FELDA settlers and 3rd parties. However, we anticipate the FFB production will improve in 2H2020, which will allow us to capitalise on anticipated favourable CPO prices.*

**Question 2:**

The Group recorded a loss for the financial year of RM371 million and its gearing ratio stood at 1.51 times (2018: 1.47 times) (pages 35&40 of Annual Report 2019 ("AR2019")).

a) Given that the end of the COVID-19 pandemic has yet to be seen and the outlook for the industry remains uncertain, what is the anticipated downward pressure on operating performance in terms of percentage especially on the bottom-line performance?

b) How will the Group prepare itself to meet its debt obligations especially the settlement of payables and loan repayments on a timely manner?

**Answer 2:**

a) *The estimated reduction in FFB production as a result of the COVID-19 pandemic is about 120,000 MT or 2.6% for the year (exclude third party and settler crops).*

*While this will affect performance in 1Q and 2Q, we anticipate that prices will be favourable in the second half of the year, mitigating the impact of lower production in 1Q 2020.*

| | 2019 | 2018 | YoY (%) |
|---|---|---|---|
| Cash & Cash Equivalents (RM mil) | 1,618 | 1,220 | 33% ▲ |
| Total Borrowings without LLA (RM mil) | 4,906 | 5,403 | (9%) ▼ |
| Liquidity Ratio (times) | 1.00 | 1.02 | (2%) ▼ |
| Gearing Ratio* without LLA (times) | 0.80 | 0.82 | (2%) ▼ |

b) *The Group has taken decisive steps to manage its cash flow and its gearing since beginning of 2019. As a result, due to improved working capital, tax recoverability and proceeds from the disposal of underperforming or non-core assets, our cash and cash equivalents have improved 33% YoY. Our liquidity ratio is lower at 1% compared to 1.02% in 2018, as a result of the repayment of long term loan. As a result, the gearing ratio (without LLA) has improved to 0.8 times, compared to 0.82 times before.*

*Currently, the Group is at the advance stage of implementing a trade receivables management program that will shorten the trade cash conversion cycle and improve group liquidity management.*

*Additionally, it is important to note that the Group is finalizing the disposal of non-core and underperforming assets which have been a drain on resources. This will improve our financial position further.*
*As such, the Group is now in a better position to support the future working capital and trade payable requirements. The Group's cash flow and cash reserves are sufficient to serve its long term commitments.*

**Question 3:**

It was reported in The Malaysian Reserve on 19 May 2020 that FGV is planning to focus on renewable-energy ("RE") projects in an effort to boost its recovery strategy from the impact of the COVID-19 pandemic.

a) What is the estimated cost of investment to be incurred for RE projects in financial year ending 2020? What are the new RE projects to be rolled out in 2020?

b) FGV is expecting to export palm kernel shells (PKS) to Japan for biofuel with shipments expected to start within this year. What is the current status? Is there a long-term contract for the supply of PKS and what is the estimated amount? What is the estimated percentage revenue contribution to the Group?

c) FGV also has a joint-venture plan to build an EFB pulp and paper plant, potentially in Kuantan, Pahang, which is expected to be completed in 2022/2023 that would utilise between half a million and one million tonnes of EFB annually.

    i) What is the current status?

    ii) What is the expected initial capital contribution by FGV to the JV and the expected capital expenditure for building the EFB pulp and paper plant?

    iii) What is the expected percentage of return on investment from the said JV?

**Answer 3:**

a) *The Renewables business is a Joint Venture with project developers or investors, whereby FGV supplies the feedstock for Bio-CNG plants. This requires no additional investment from FGV.*

   *For this year, we are expecting to roll out 2MW biogas to FIT plants at Kilang Sawit Triang and Keratong 9 in Pahang.*

b) *Group is in the final stage of discussions with several buyers in Japan. We expect to start exporting by 4Q this year.*

   *We will make the necessary announcements on the contract terms and revenue contributions at the appropriate time.*

c)

    i) *FGV and Lee & Man is currently finalising the feasibility study and pilot testing of the EFB in China. Due to the COVID-19 pandemic, certain milestones were delayed. We will make the necessary announcements at the appropriate time.*

    ii) *Discussions are still ongoing on the capital structure, CAPEX requirements and other details.*

    iii) *Based on our assessment, FGV and Lee & Man are looking at a double digit Internal Rate of Return ("IRR"). We will make the necessary announcements at the appropriate time.*

**Question 4:**

Under outlook and prospects for Logistics and Others sector of the Group's business (page 63 of AR2019):

a) Bulking - Capacity expansion through construction of new additional tanks and overseas expansion of storage capacity. What is the expected additional storage capacity for the said expansion and the capital expenditure to be incurred? In which countries will the Group be expanding such storage capacity?

b) Transport - Penetration into new industry (oil & gas). Please elaborate further in relation to the Group's plans on penetration into new industry such as oil & gas.

**Answer 4:**

*a) The bulking business registered a PBZT of RM68 mil in 2019, due to higher throughput handled and the increase in bulking rental income. With steady CAGR of 5% annually, the Group decided to expand capacity by 35,000 MT. Currently tanks with a total capacity of 15,600 MT are under construction, which is scheduled for completion in September 2020. CAPEX is about RM11.5 mil.*

*We are also planning additional storage tanks with a capacity of 19,400 MT and a dry cargo warehouse of 15,000 MT capacity, which will be completed by mid-2021. Budgeted total CAPEX is about RM32.0 million.*

*The Group is looking to expand into Indonesia and Pakistan, where we have a significant business presence through an existing joint venture.*

*b) FGV transport was registered as a logistics vendor/supplier for PETRONAS in September 2019. We are currently bidding for various tenders in collaboration with other experienced business partners.*

**Question 5:**

In 2019, Group Human Capital optimised employee benefit policies from a cost perspective given the business challenges faced by FGV. As at the end of 2019, the Group has achieved 7.1% savings in manpower costs and a reduction of manpower numbers from 18,742 to 17,104, while improving productivity (page 30 of AR2019).

Are there any staff-related cost cutting measures to be carried out in financial year ending 2020 which involves fee/salary reduction or retrenchment/lay-off plans?

**Answer 5:**

*Manpower cost rationalization is an ongoing initiative under the Group's Human Capital management plan to reduce manpower cost by 10% over a 3 year period from 2019.*

*As part of this initiative, ongoing reviews are being conducted on allowances and other benefits that will be implemented across the Group. Any reduction in the* *number of employees would be the corresponding result of the disposal of under-performing or non-core businesses or Mutual Separation Schemes.*

*Additionally, from July to December 2020, FGV will take the following measures:*

1. *Mandatory 2 days No Pay Leave for employees of General Manager grade and above;*
2. *A 20% reduction in car allowance for Senior GMs and above.*

**Question 6:**

How will the Group be impacted by India's resumption of purchases of Malaysian palm oil and the Government's decision to exempt the export duty on both refined and crude palm oil ("CPO") and palm kernel oil?

**Answer 6:**

*FGV has been positively impacted by the Indian decision on 12 May 2020, to remove the additional 5% import duty on RBD Palm Oil & Olein from Malaysia. This move had a catalytic impact on demand from India, as a result of which FGV has received more inquiries for our oil. From June onwards we are seeing direct sales to India in the region of 30,000 MT to 50,000 MT per month.*

*This demand is expected to continue in the coming months unless if there is an import duty hike as proposed by The Solvent Extractors Association of India.*

## CORPORATE GOVERNANCE MATTER

**Question 1:**

En. Mohd Hassan Ahmad, the Non-Independent Non-Executive Director of the Company only attended 6 out of 9 Audit Committee meetings – 67% attendance during the financial year (page 89 of AR2019).

What are the reasons for him not being able to attend the other three Audit Committee meetings during the financial year?

**Answer 1:**

*En. Mohd Hassan Ahmad is Non-Independent Non-Executive Director, representative of FGV's Special Shareholder from the Ministry Of Finance and he is currently the Deputy Under-Secretary of the Fiscal and Economics Unit in MOF. Due to unscheduled and unavoidable work commitments in MOF, En. Hassan was unable to attend Audit Committee Meetings on 18th February 2019, 19th February 2019 and 20th August 2019.*

*Nevertheless, En. Hassan has always communicated his views on pertinent matters and has remained committed to his responsibilities in the Audit Committee and to the company.*

*In future, En. Hassan and the management will endeavour to synchronise schedules more effectively to ensure attendance at all Audit Committee meetings.*

## QUESTIONS RAISED BY SHAREHOLDERS DURING FGV 12TH AGM

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| **1.** | **In view of the pandemic and since the palm oil sector has been badly affected by the MCO, in which earnings are expected to be depressed, is the BOD going to lay off staff and/or cut salaries?**<br><br>Manpower cost rationalisation is an ongoing initiative under the Group's Human Capital management plan to reduce manpower cost by 10% each year over a 3 year period from 2019.<br><br>As part of this initiative, ongoing reviews are being conducted on allowances and other benefits that will be implemented across the Group. Any reduction in the number of employees would be the corresponding result of the disposal of under-performing or non-core businesses or Mutual Separation Schemes.<br><br>Additionally, from July to December 2020, FGV will take the following measures:<br>1. Mandatory 2 days No Pay Leave for employees of General Manager grade and above; and<br>2. A 20% reduction in car allowance for Senior GMs and above. |
| **2.** | **Why Proxy Form only allowed Chairman to vote? Is this in accordance to FGV's constitutions?**<br><br>On 11 June 2020, FGV has made an announcement at Bursa Malaysia website and FGV's website on the revised the Proxy Form to allow the shareholders to appoint their own proxies instead of just the Chairman. |
| **3.** | **Why a total of a few hundred millions Ringgits of retained profits of FGV's ultimate subsidiary companies (namely 1. Pontian Orico Plantation Sdn Bhd, 2. Pontian Fico Plantation Sdn Bhd, 3. Pontian Subuk Plantation Sdn Bhd, 4. Pontian Pendirosa Plantation Sdn Bhd, 5. Pontian Mataris Plantation Sdn Bhd, and 6.Pontian Hilco Plantation Sdn Bhd) and its immediate subsidiary company, (namely, Pontian United Plantations Berhad) have not be declared and given out as dividends so that the shareholders of FGV will get more dividends? Why for a period of more than 7 years, no dividend was declared by FGV's ultimate subsidiary companies (namely 1. Pontian Orico Plantation Sdn Bhd, 2. Pontian Fico Plantation Sdn Bhd, 3. Pontian Subuk Plantation Sdn Bhd, 4. Pontian Pendirosa Plantation Sdn Bhd, 5. Pontian Hilco Plantation Sdn Bhd) 6. Pontian Mataris Plantation Sdn Bhd and its immediate subsidiary company, (namely, Pontian United Plantations Berhad except for one occasion for a very small amount of dividend?**<br><br>PUP has paid yearly dividend to its shareholders in 2013, 2014, 2015 and 2018 of 11 sen, 11 sen, 14.11 sen and 0.5 sen respectively.<br><br>We have not paid within the period of 2016 and 2017 due to replanting and capital |

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| | expenditures improvement on the mills.<br><br>In 2019, PUP will propose 5 sen dividend subject to approval from the Board of Directors. |
| **4.** | **Will the company be giving e-vouchers to shareholders attending this live streaming AGM?**<br><br>General meetings represent the primary platform for communication between the Board and the shareholders. For sustainability purpose, during this challenging times, FGV prefers to give dividend instead of door gift. |
| **5.** | **What is the quantum of losses the board is expecting for this financial year?**<br><br>As COVID-19 distancing economy will have a profound impact globally and the end of the pandemic has yet to seen, the Board expects the business environment to remain challenging for the rest of 2020.<br><br>Operationally, the estimated reduction in FFB production as a result of the COVID-19 pandemic is about 120,000 MT or 2.6% for the year (excluding third party and settler crops).While this will affect performance in 1Q and 2Q, we anticipate that prices will improve/ favourable in the second half of the year, mitigating the impact of lower production in 1Q 2020. |
| **6.** | **What was FGV's average production cost CPO for FY 2019?**<br><br>RM1,503 per MT |
| **7.** | **From all the efforts taken by the Management, when can (time frame) the minority shareholders like me see FGV showing profits and give respected dividends to us?**<br><br>Payment of Final Dividend<br>Section 131 of the Companies Act, 2016, provides that a company may only make a distribution, (i.e. dividend) to the Shareholders out of the company's available profits if the company is solvent.<br><br>On 28$^{th}$February 2020, the Board has duly considered the proposal for dividend payment and decided to recommend the same for the Shareholders' approval.<br><br>The Directors of FGV are satisfied that the Company will be solvent as it will be able to pay its debts as and when the debts become due within twelve (12) months immediately after the distribution is made on 15$^{th}$ July 2020 in accordance with the provision under Section 132(2) and (3) of the Companies Act, 2016. |

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| 8. | **With all the litigations against former Board of Directors which I read in the media, has the insurance premium on Directors and Officers Liabilities increased significantly?**<br><br>The amount of insurance premium paid by the Group during the financial year 2019 is disclosed on Page 4 of the 2019 Audited Financial Statements. |
| 9. | **There is now a new Felda chairman. May I know what competitive advantage he has over the precedent? How he can makes a difference and turnaround the company's financial performance?**<br><br>FELDA Chairman is not FGV's Chairman. FELDA is a substantial shareholder in FGV, who owns 33.7% shares in FGV.FGV is not in the position to comment on FELDA's Chairman. |
| 10. | **Boradroom, please increase your audio volume a little more, a little too low even with my maximum volume, especially when a little far from microphone.**<br><br>The quality of the connectivity to virtual meeting portal for live streaming is highly dependent on the bandwidth and the stability of the internet connectivity available at the location of the remote users. Notwithstanding, FGV will publish the Key Matters Discussed during the AGM onto FGV's website pursuant to Paragraph 9.21(2)(b) of the Main Market Listing Requirements for the benefit of the shareholders.<br><br>As this is FGV's first fully virtual AGM, we truly value your feedback for improvement moving forward. |
| 11. | **What are the other disposals of non-core assets? How much expected to raise? And how it was done, through a broker or tender?**<br><br>We would only divest when the price is right. Currently, we have yet to achieve the RM350 million disposal target for 2019 given the market slowdown which impacted the value of the identified assets for disposal.<br><br>FGV is expected to divest up to RM150 million worth of assets in the financial year 2020. These assets are remnants from last year's target and are mostly smaller assets. Some of them are not bleeding, but when the opportunity arises, we will let them go. However, given the ongoing COVID-19 pandemic, it will be harder to divest at the price that we would like. |
| 12. | **Did FGV apply for any of the economic stimulus program, or employment retention program or wage subsidy program via Perkeso., that was announced by the Prime Minister? If so, what programs did FGV apply for and how much was received?**<br><br>One of FGVH's subsidiary, Felda Travel Sdn Bhd have applied for the wage subsidy program via Perkeso (for employee with salary below RM4,000), for the period of six |

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| | (6) months from April to September 2020, totalling to RM294,000. The detail is as per the below table:- |

| | Month | No of Employee | Amount of Subsidy / employee (RM) | Total (RM) | Status of Application (as at 28 June 2020) |
|---|---|---|---|---|---|
| 1. | April | 56 | 1,200 | 67,200 | Application approved by Perkeso |
| 2. | May | 54 | 1,200 | 64,800 | Awaiting approval from Perkeso |
| 3. | Jun | 54 | 1,200 | 64,800 | Awaiting approval from Perkeso |
| 4. | Julai | 54 | 600 | 32,400 | Yet to apply |
| 5. | Ogos | 54 | 600 | 32,400 | Yet to apply |
| 6. | Sept | 54 | 600 | 32,400 | Yet to apply |
| | Jumlah | | | **294,000** | |

**13.** **How much total CAPEX value is budgeted per year and over 5 years? What is their ROI? By when FGV should reach their preferred/targeted age profile?**

Total CAPEX value budgeted/expected over the next 3 years per year is in the range of RM 700m to RM 1000m. Up to 30% of the budgeted will usually be allocated for replanting cost and the rest are mostly for replacement cost and upgrades/new additions for operations in all sectors.

For new upgrades and new additions, there are other criteria that are considered together apart from ROI such as payback period, future cost savings, compliance requirement by authorities and etc. by the Management.

For 2020, our target average tree age profile is 13.2 years. The distribution of our very old trees age (>25 years) is still high at 85,807 Ha @ 31%. We will continue our replanting plans until we achieve an average age profile of 12.0 years. We aim to achieve this by 2026.

**14.** **Thank you for presenting MSWG's questions. The Board's decision to take a 20% cut to your directors' fees is commendable. New products such as animal fat replacer, dairy fat replacer, palm kernel protein and calcium soap are now in the process of commercialisation (page 29 of AR2019). When will these new products start commercialisation? Are these new products meant for local or export markets? How will it contribute to the Group, going forward?**

Yes, there are a few products like New Solution for bagworm control, Biofertiliser, Animal Fat Replacer and Fluidised Palm Oil.

New products that are still in developing stage: Biofertiliser & New Solution for

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| | Bagworm Control.<br><br>Completed: Animal Fat Replacer and Fluidised Palm Oil.<br><br>The marketing team is aggressively engaging with potential customers. |
| **15.** | **Why are you having this yearly meeting near Friday prayer?**<br><br>This is the date allocated to FGV by Boardroom. As all the PLCs are having virtual AGMs this year before 30 June 2020, FGV was not given other dates. |
| **16.** | **What is FGV involvement with MSM land in Chuping?**<br><br>FGV Group is in discussion with MSM to develop the Integrated Agro Food Valley on the said land, with the aim to cultivate high value alternative crops in four main agro-food sectors including cassava for starch production, MD2 premium pineapple, *harum manis* mangoes and animal feed production based on cassava biomass. |
| **17.** | **Much of your poor performance has been due mainly to bad investment/business deals done, despite previous objections, because of high level self-interest and poor integrity. A number have been taken to court. How have you addressed these key issues that can prevent large losses going forward?**<br><br>Considering lessons learnt from past investment failures, we realise the importance of having sound risk analyses for key business decisions and investment projects. FGV has implemented a policy on risk review function and process for investment proposals and subsequently the Board resolved that any investment proposal papers need to be endorsed by Head of Group Governance & Risk Management (GGRM) to ensure that all associated risks have been highlighted. A dedicated team under GGRM's Strategic Risk Management department supports the function in analysing the risks of any projects before tabling to the Board. Following the aforementioned Board's directive, the investment policy was also revised and comprehensive risk assessment is made compulsory for any investment projects.<br><br>Besides, we have developed anti-bribery policies and procedures as required by Guidelines of Adequate Procedures of section 17A(5) of the MACC Act, and compliance to the ISO 37001:2016, and we obtained the Anti-Bribery Management Systems certification in December 2019.This works as adequate measures to mitigate against corrupt practices within the organisation.<br><br>These controls will help avoid similar instances of past legacy investment decisions from happening again and revive FGV's reputation in this area. |

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| 18. | **Your sugar refinery in Johor is more than adequate to supply the whole country without Prai refinery. Why not shutdown Prai to save cost since Johor refinery is new and have more efficient operations?**<br><br>The rationalisation plan has been ongoing since Q2 2019 when we decided to cease operations of our non-core plantation segment. This year, we have taken another step which is to consolidate our refining capacity in Perlis to the larger plant in Johor. By doing this, we have saved RM1.6m in depreciation per month since Q3 2019 when we began the rationalisation. This year, we will further save RM1.1 million in operational cost per month. This will be achieved as we will be able to increase utilisation of the Johor plant, which will in turn reduce the refining and operational cost for the Group. |
| 19. | **How many palm oil trees do you have in Johor?**<br><br>Estimated of 4.6 million trees. |
| 20. | **Your Chairman is always looking down, when camera is focusing at him. Not much personal interaction.**<br><br>As this is FGV's first fully virtual AGM, we truly value your feedback for improvement moving forward. |
| 21. | **FGV reported unimpressive financial since 2018. Various steps had been taken but desired result hang in balance. What is FGV's next move? Any plan to tie up with strong financial viable owned planter?**<br><br>FGV is predominantly a supplier of essential goods and services – mainly cooking oil, sugar and the logistics support needed to store and move goods around the country. In other words, FGV is already in the business of producing and providing one of the basic needs of humankind – food. However, we need to do more.<br><br><u>Business focus</u><br>• We must learn to think and work differently. We must understand what our customers need and want, and how we are going to get it to them.<br>• We must continue to ensure that our palm oil operations perform at optimal levels. Setbacks caused by weather and unforeseen situations must be overcome as expeditiously as possible.<br>• We must continue to build strong relationships with customers.<br>• We must use our current resources differently, to extract more value.<br><br><u>Supply Chain Focus</u><br>• We must ensure that smallholders are supported so, FGV can continue to successfully link them to international markets.<br>• We must mobilise our existing supply chain and help our smallholders to produce more than palm oil, to capitalize on domestic demand for fresh food.<br>• We must make sure that our logistics networks are in place, so we can become that vital lifeline connecting the farmer and the customer. |

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| | <u>Identify and Grow new revenue streams</u><br>• At the same time, we must expand our focus beyond oil and sugar.<br>• We must recognize that we are part of a dynamic region with more than 600 million people and a further 2.8 billion in China and India, within easy reach.<br>• We must identify ways and means to produce quality food crops for Malaysians, at more affordable prices and to help reduce the country's food import bill.<br>• If we need to move beyond fresh food, to canned or processed foods with longer shelf lives, we must be nimble enough to move into the space, either directly or through partnerships.<br>• FGV must recognize the value in everything we have and do. We must eliminate wastage and at the same time create value through doing so. The palm circular economy carries a lot of potential for organisations that are willing to think out of the box.<br><br>We have to undertake all of the above and deliver on our commitments, at the same time, efficiently, quickly, and responsibly. Having said that, we must never compromise on ethics, FGV's board and management will work through this crisis and the impending challenges of the post COVID-19 movement control order. |
| **22.** | **Please audit this virtual meeting reliability and effectiveness, poor connection and difficult to logon.**<br><br>The quality of the connectivity to virtual meeting portal for live streaming is highly dependent on the bandwidth and the stability of the internet connectivity available at the location of the remote users. Notwithstanding, FGV will publish the Key Matters Discussed during the AGM onto FGV's website pursuant to Paragraph 9.21(2)(b) of the Main Market Listing Requirements for the benefit of the shareholders.<br><br>As this is FGV's first fully virtual AGM, we truly value your feedback for improvement moving forward. |