ANNEXURE 2

MSM Malaysia Holdings Berhad

QUESTIONS AND RESPONSES - MSWG

A Member of FGV

Questions from Minority Shareholder Watch Group (MSWG)

Question 1

In FY2021, MSM Group's gross profit margin reduced by 4% from the prior year due to raw sugar price increase, higher natural gas costs as well as the significant increase in freight costs that further squeezed the refining margin (page 66 & 74 of Annual Integrated Report (AIR) 2021).

a) Does the Group see similar cost pressure in FY2022 in view of the global inflationary headwinds? What is the percentage of raw sugar requirement for FY2022 that has been hedged?

MSM views these cost pressures to continue in FY2022 due to global demand and food security concerns more so with prolonged Russia-Ukraine conflict in Europe. Based on the expected annual requirement for FY2022, MSM has hedged for Wholesale at 92% (16.00 – 17.00 US c/lbs) and for Industry segment at 70% (17.50 – 18.50 US c/lbs).

Questions from Minority Shareholder Watch Group (MSWG)

Question 1

b) Refined sugar is a controlled-price item with gazetted wholesale ceiling price is capped at RM2.69/kg in early 2022 and the group increased its average selling price (ASP). To what extent will it help to cushion the impact of escalating price of raw sugar and gas and freight costs in 2022?

Raw sugar, natural gas and freight are main components of MSM's refining cost. Raw sugar makes up approximately 70% of our production cost and is expected to stay high in 2022.

Due to a matured ethanol programme as transport fuel mix in Brazil, raw sugar suppliers are subject to food vs fuel option. Raw sugar price has moved in tandem with Brent crude oil prices as Brazilian sugar millers are more motivated presently to switch production from sugar to ethanol due to prevailing higher price, and with Brazil being the world's largest supplier of raw sugar, this switch would cause a gap in the global supply of sugar. The current ethanol parity is 21.50 c/lbs as at 1 June 2022 compared to sugar price of 19.44 c/lbs as at 1 June 2022.

With the increasing global demand for energy and the prolonged Russia-Ukraine conflict, both these 2 attributes, amongst others, have caused price of oil to spike up in 2022, leading to the inflationary pressures with higher oil-derived gas energy cost. The recent USD strengthening against most currencies including against MYR is also posing as a cost pressure. All these factors have an impact on the overall production cost for MSM.

Besides other mitigation actions, MSM as a joint industry with CSR has had a series of engagements with the Government on increasing the ceiling price for the Wholesale segment in view of the rising input costs impacting the sugar industry.

Questions from Minority Shareholder Watch Group (MSWG)

Question 2

MSM Johor refinery was running at lower utilisation factor rate in FY2021 due to temporary shutdown resulting in higher cost of production (page 75 of AIR 2021). Under the 3-year strategic plan, in 2022 the Group aims to achieve steady production in MSM Johor towards achieving break-even (page 70 of AIR 2021).

a) **What is the current utilisation rate of the Johor refinery? What are the targeted plant's utilisation factor and yield for MSM Johor in 2022?**

MSM Johor's 1Q 2022 utilisation factor (UF) is 12%. The targeted FY2022 for UF is 30% (with Q3 and Q4 target of 40-50% UF) and Yield more than 90%.

b) **When does the Company expect to turnaround MSM Johor to achieve breakeven point for capacity utilisation?**

Boiler 1 is currently on improvement works that is expected to complete in December 2022. With both boilers available in 2023, we are optimistic that MSM Johor is expected to ramp up its production at minimum breakeven of about 50% UF in the same year.

c) **Have the boiler breakdown issues at the Johor plant been resolved?**

MSM Johor is executing a detailed ramp-up plan focusing on optimising operations and plant wide improvements. Boiler 2 has been fixed and resumed operation on 3 December 2021. As mentioned for Boiler 1, it is currently under improvement works and expected to be back in operation by December 2022.

In addition, MSM is currently in the process of tendering for a new Boiler 3 & Package Boiler for long term reliability which is expected to be commissioned by end of 2023. The installation of these new boilers will mitigate any insufficient steam issue and offer better operational reliability and availability with boiler redundancy in MSM Johor.

Questions from Minority Shareholder Watch Group (MSWG)

<u>Question 3</u>

For FY2021, inventories written down and written off were RM13.4 million and RM6.1 million respectively, while the write-down or write-off for FY2020 were significantly lower at RM0.65 million and RM1.4 million respectively (page 282 of AIR 2021).

a) Why was there such significant inventories write-down or write-off?

<u>Inventories written-down</u>

In FY2021, the inventory write-down to Net Realisable Value (or NRV Provision) was higher due to higher raw sugar landed cost and 74% higher raw sugar stockholding at the year-end compared to FY2020. The write-down was required due to increases in the main elements of production cost as follows:

- *61% increase in raw sugar cost;*
- *79% increase in freight;*
- *7% increase in gas costs.*

The increases have resulted in a bigger variance between production cost and the Domestic Average Selling Price (ASP). Although Domestic ASP has increased in FY2021 against FY2020, the higher rate of increase in production cost for FY2021 has resulted in a write-down provision for inventories to net realisable value of RM13.4 million.

MSM has improved its inventory management and has recorded no significant inventory variance above threshold limit.

<u>Inventories write-off</u>

Inventories written off in FY2021 of RM6.1 million was caused by refined sugar stock held at an external warehouse in Kota Kemuning which was impacted by flash floods in December 2021.

Subsequently in 1Q 2022, the Group has managed to recover a sum of RM2.6 million of good saleable stock from the amount previously written off. Insurance claim was initiated in January 2022 for the remaining damaged sugar and the assessment and efforts to salvage part of the affected sugar (including loss of working) by insurance company is ongoing.

Questions from Minority Shareholder Watch Group (MSWG)

Question 3

b) What is the estimated amount that may be salvaged from the written down inventories? Is there a need to review the inventories management policies?

Write-down of inventory is made to account for the best estimate of future loss. To minimise the impact of inventory write-down, the Group recognises the need to improve the key parameters such as landed raw sugar cost, refining cost, utilisation factor, yield and ASP. Any improvement on these parameters may result in reversal of the write-down provision for inventories.

The assessment of inventory write-down is made in line with MFRS 102 accounting standards and reviewed by our external auditors on quarterly basis. Group Inventory Management Policy is in place which provides guidance on the overall management and control of inventory.

Questions from Minority Shareholder Watch Group (MSWG)

<u>Question 4</u>

The ageing profile of the Group's trade receivables shows all categories of past due but not impaired trade receivables. The category of more than 90 days past due but not individually impaired increased significantly to RM45.2 million in FY2021 which constitute 17% of total trade receivables in FY2021 (FY2020: RM12.5 million (constitutes 5.5% of total trade receivables in FY2020) (Note 23, page 345 of AIR 2021).

a) How much of the RM45.2 million trade receivables have been collected todate? What are the efforts by management to collect the long outstanding trade receivables?

The receivables balance in the 90 days past due category of RM45.2 million has been impaired by RM3.7 million as at 31 December 2021 (Note 23, page 345 of AIR 2021). The impairment loss made is in line with MFRS 9 accounting standards. This impairment loss is written back once the balance is recovered.

As at 31 May 2022, MSM has collected RM40.1 million of total outstanding as at 31 December 2021 in the 90 days past due category. This represents 89% of the amount outstanding in the 90 days past due category at the year-end. The amount yet to be collected to-date of RM5.2 million represents 11% of the original amount outstanding in the category at the year-end.

MSM carries out ongoing engagement with customers to expedite the collection and does not foresee any issues in the recoverability of the amount given long-standing relationship with and credit-worthiness of our customers.

Questions from Minority Shareholder Watch Group (MSWG)

Question 4

b) To which business segment (Wholesale, Industries or Export) do these customers with long outstanding trade receivables relate to? Please provide the profile of debtors with long outstanding trade receivables include details such as country, amount due, overdue period etc.

RM million	FY 2021
Wholesale	45.11
Industry	0.05
Export	0.05
Total	**45.21**

The amount outstanding in the 90 days past due category as at 31 December 2021 relates mainly to sales of sugar to Malaysian Wholesale customers. As at 31 May 2022, the Group has collected 89% of the amount outstanding and the remaining balance will be fully recovered in the current year.

c) How likely is it that these long outstanding trade receivables require provisions to be made?

MSM has made a provision of RM3.7 million for the amount outstanding in the 90 days past due category as at 31 December 2021, in line with MFRS 9 (Note 23, page 345 of AIR 2021). As mentioned above, as at 31 May 2022, 89% of the balance outstanding in this category has been recovered. There is no additional provision required for the remaining balance as the Group expects this to be fully recovered in the current year.

Questions from Minority Shareholder Watch Group (MSWG)

Question 5

The allowance for impairment losses on other receivables has increased significantly by 3212% to RM8.048 million in FY2021 (FY2020: RM0.243 million) (Note 23, page 343 of AIR 2021).

a) Please provide the components of the other receivables that has the impairment losses. What were the reasons for the high impairment losses in FY2021?

Other receivables	FY 2021	Impairment loss
	RM million	RM million
Sundry receivables	15.2	8.04
Deposit placed with futures Brokers	17.9	-
Insurance claim receivable	7.2	-
Subsidy receivable	1.2	-
Total	**41.5**	**8.04**

The impairment loss made in FY2021 was predominantly for raw sugar claim made against a raw sugar supplier. After further discussions with the raw sugar supplier, it was mutually agreed that the amount was not claimable due to static error in raw sugar weigher. Consequently, the impaired amount of RM8.04 million was eventually written off in 1Q 2022.

The remaining balance not written off is considered recoverable and MSM has agreed with the raw sugar supplier to net off the balance against future monthly raw sugar purchase.

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Questions from Minority Shareholder Watch Group (MSWG)

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<u>Question 5 (a)</u>

The claim arose as a result of shortage between landed weight and Bill of Lading quantity which represents 0.38% of total raw sugar received in FY2020 and FY2021.
In mitigation, MSM has performed the following:

i. *Increase the frequency of calibration and verification on the raw sugar weighers which is jointly conducted with raw sugar supplier, equipment supplier and independent surveyor.*
ii. *Planned replacement of the raw sugar weighers.*
iii. *Improve the implementation of raw sugar management procedures.*

Presently we continue to engage with raw sugar supplier on each vessel basis to ensure minimum shortage during discharge. The Group foresees no issue on the recoverability of raw sugar claims going forward.

b) What are the challenges the Group faced in collecting the impaired other receivables? What is the expected amount of the impairment losses that will have to be written-off eventually?

MSM continues to engage with parties involved to ensure timely recoverability of its other receivables balance and reduce any further impairment loss or write-off. Any impairment loss that needs to be written off will require approval according to the Limit of Authority detailed in the Group Receivables Policy.

Other than the amount written-off for raw sugar shortage claim mentioned above, the remaining other receivables amount not impaired at the year-end will be fully recovered in the current year.

THANK YOU

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