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RESILIENCE

MSM MALAYSIA HOLDINGS BERHAD

12TH ANNUAL GENERAL MEETING

8 JUNE 2023, THURSDAY

MSWG Pre-AGM Questions & Responses

MSM MALAYSIA HOLDINGS BERHAD

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 1

MSM group recorded loss from operations of RM150.57 million compared to previous year profit from operations of RM125.56 million mainly due to elevated raw sugar prices, higher cost of natural gas, freight and a weak Malaysian Ringgit which led to higher overall input costs (page 22 & 34 of Annual Integrated Report (AIR) 2022).

a) Does the Company expect normalisation in input costs such as raw sugar price, natural gas price and shipping rates in 2H2023?

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 1(a) (continued)

The Company does expect normalisation in shipping rates to pre-COVID levels. However, raw sugar is still to remain high and shows no signs of retracing with the forecasted El Nino weather between August and October 2023 which would disrupt a percentage of crop production.

On natural gas, barring any shocks affecting market, prices will normalise to a lower indicative rate obtained from authorities for the 2nd half of the year. MSM expects to see gas prices to be at a lower rate than 2022.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 1 (continued)

b) What is the management pricing strategy for Wholesale, Industries and Export segments for FY2023, considering the prevailing market conditions and cost dynamics? Will there be another revision in average selling prices (ASPs) in 2H2023?

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 1(b) (continued)

The Group had taken various initiatives to curb the losses. Amongst the initiatives are to increase the selling prices of sugar in various segments:

- *Increased the Average Selling Price (ASP) to RM2,800/MT (Q1 2023) from RM2,649/MT (FY2022).*
- *Expect ASP for FY2023 to range between RM2,900/MT to RM3,100/MT. Included is the high-quality SKU (Gula Super) with a selling price of RM4,200/MT as the initial price float.*

We shall keep the possibility of further hikes in selling prices depending on the Government outcome to increase the controlled ceiling price for the consumer segment to which the joint sugar industry is scheduled to reengage KPDN in Q3 2023 to address structural price changes for long term sugar industry sustainability.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 1 (continued)

c) **What is the Company's outlook on profit margins? Do you expect profit margins to normalize, stabilize or potentially improve in FY2023?**

MSM has taken proactive measures to improve margins and performance in FY2023 with necessary robustness. The company's outlook on margin is still highly dependent on the Government's decision and announcement on the revised selling price since currently we are still operating under high input cost. With the recent Government's announcement allowing local sugar industry to produce and market Gula Super at a price determined by market forces, this should improve the Group's margins in the coming quarters and FY2023.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 1 (continued)

d) Please update the progress of engagement with the relevant government ministries on floating the ceiling price for retail sugar.

On 25th May 2023, the Government allowed the sale of Gula Super as a first indicator to allowing a more sustainable market driven price float structure. The joint sugar industry is scheduled to reengage KPDN in Q3 2023 to address structural price changes for long term sugar industry sustainability.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 2

Considering that 100% raw sugar is sourced and procured by the group from various countries such as Brazil, India, Thailand, South Africa, and Guatemala. Imports from these countries are restricted to export quotas and any move to curb sugar exports by these countries will contribute to a very tight supplies of raw sugar (page 41 of AIR 2022).

a) **Given that imports from these countries are not a sustainable option, what are the mitigating strategies to ensure availability of raw sugar supply?**

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 2(a) (continued)

MSM has an omni sourcing strategy from various countries assured by a leading global trade house to mitigate any disruption. Volumes are forward loaded about 2 months stock as security ahead of production requirements and drawn under a pay-per-use arrangement.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 2 (continued)

b) Is the Company still exploring with the government on large scale sugarcane plantation as part of the national food security blueprint?

Based on MSM's input, the Government is studying the feasibility of cultivating sugarcane crop in Malaysia. MSM is supportive of the Government's interest and will act as the off-taker for the raw sugar produced locally by Malaysian growers. Land availability, terrain, weather and growing scheme with an integrated crushing mill are some considerations for further studies.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 3

Natural gas makes up about 40% of refining costs and poses an upside risk in FY2023, especially with the price of natural gas at RM67.16 per MMBtu in the first quarter of 2023 (FY2022: average price of RM47.71 per MMBtu) (page 41 of AIR 2022).

Apart from hedging the rising natural gas cost with Brent-linked derivatives, what are the proactive measures taken to reduce the consumption of natural gas in the long run?

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 3 (continued)

MSM also takes the following proactive measures to reduce the consumption of natural gas.

Recovery

MSM in its process recovers most of its steam and reuses it for the next cycle. This in turn reduces the amount of new steam generation for the process. MSM Johor as part of its long term changeout on Boiler 1 had incorporated some new technologies to improve heat recovery. MSM Prai had its mechanical vapour recovery system optimised to recover more steam from the process.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 3 (continued)

Steam optimisation

One of the main parameters that MSM monitors is the Tonne Steam per Tonne Raw Sugar melt (TS/TR). The steam generation process is constant, MSM optimises the production portion of it by increasing raw sugar melt to improve and reduce the cost per Tonne Raw Sugar melted.

To reduce the dependency on natural gas, MSM is also exploring renewable energy via solar and biomass.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 4

The "Assessment of funding requirements and ability to meet the short-term obligations" is a key audit matter (KAM) highlighted by the Independent Auditor's in their Report on the Audit of the Financial Statements (page 141 of AIR 2022). Key audit matters are those matters that, in the professional judgement of the Independent Auditor's, were of most significance in the audit of the financial statements of the current period.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 4 (continued)

As noted in the KAM:

As at 31 December 2022, the Group had short term borrowings of RM580 million and payables of RM335 million. This resulted in the current liabilities of the Group exceeding the current assets by RM53 million at that date. As a result, we focused on the Group's funding and ability to meet their short-term obligations due to the net current liabilities position mentioned above.

If the group is unable to secure any form of funding, how does the Board plan to address the funding requirements to meet its short-term obligations due in the next 12 months?

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 4 (continued)

The Group maintains a sufficient level of cash and cash equivalents to meet the Group's working capital requirements by closely monitoring its cash flows.

Cash flow forecasting is performed in the operating entities, and then aggregated by management. Management also monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

As disclosed in our Audited Financial Statements, the Directors are of the view that, based on management's assumptions, there are reasonable grounds that the Group will have sufficient cash flows for the next 12 months to meet its cash flow requirements, despite the net current liabilities position mentioned above.

QUESTIONS FROM MINORITY SHAREHOLDER WATCH GROUP (MSWG)

Question 4 (continued)

The Group's cash requirements for at least the next 12 months from the financial statements approval date primarily include operational requirements, capital expenditure for the Group's refineries and repayment of loan facilities and tax liabilities. The Group may continue to draw upon the availability of unutilised trade lines with its suppliers and trade lines under subsidiaries of FGV Holdings Berhad (FGV), as and when it is required.

In addition, FGV has also confirmed its intention to provide continuing financial support to the Group as and when necessary to enable the Group to meet its liabilities as they fall due including the Company's Islamic Term Loan obligations.

THANK YOU

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