



LOTUS KFM BERHAD

198401007083 (119598-P)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTY-SIXTH ANNUAL GENERAL MEETING OF LOTUS KFM BERHAD (“LOTUS” OR “THE COMPANY”) HELD ON MONDAY, 22 MARCH 2021 AT 11:00 A.M. (“36th AGM”)

REPLY TO QUESTIONS FROM THE MINORITY SHAREHOLDERS WATCH GROUP (“MSWG”)

Mr. Tan Kok Kiat, the Financial Controller of the Company, presented the questions received from the MSWG and the response to the MSWG as follows: -

Operational & Financial Matters

Q1. Due to the COVID-19 pandemic, sales have decreased marginally in FY2020, but cost of sales were lower, and this resulted in higher gross profit. This was due to the cost control policy imposed by the management. LKFM recorded a gross profit of RM5.5 million, an increase of 396% as compared to the previous year (Page 5 of AR2020).

(a) The Group has taken proactive measures to mitigate the unexpected interruption of supply of imported raw materials (wheat and tapioca) as well as their prices by increasing inventory to a reasonable level when prices were relatively low (page 6 of AR2020). What were the other costs saved during FY2020 as a result of the better cost control policy imposed by the management?

The other cost saving approach was through the reduction of raw material wastage in the form of increased wheats' extraction yield and this has been achieved after commissioning a new flour milling production line during 1st quarter of FY 2020.

(b) Will the better cost control policy enable the Group to protect its operating margin in the coming year?

The operating margin is expected to drop in FY2021, mainly due to the increase of wheat price (by 40% vs year ago) and increased in container sea-freight rate which will continue to be the same for the remaining year, given the near-term geographic imbalance container box demand issue in shipping industry.

Q2. "Inventories written-down" increased to RM264,490 (2019: RM15,995) (Note 8, page 79 of AR2020).

(a) What were the types of inventories that have been written down in FY2020?

The major item written down in FY 2020 was related to a number of unusable aged spare parts for an old production line ("Mill B"), which has been temporary idled.

(b) What were the reasons for the write-downs?

The Mill B was temporary discontinued for production.

(c) Are there any foreseeable write-downs for the financial year ending 2021?

The Company does not foresee any large inventory to be written down in FY2021.

Q3. Write-off of other receivables amounted to RM0.5 million (2019: RM Nil) (Note 10, page 81 of AR2020).

(a) What was the nature of these other receivables that were written off?

This legacy old receivable item was booked in FY2010 and despite legal process was instituted in court of law, it is now deemed unrecoverable following the dissolution of the party involved, hence, a write off was recommended. As it was previous provided for, this RM0.5 million will not have any financial impact.

(b) What actions have been taken to recover the said amount prior to the write-off?

Legal action was taken against this "Other Debtor". For more information, please refer to Bursa announcement in year 2010.

Q4. LKFM announced recently that it has entered into three share sale agreements to acquire the entire equity interest in three companies (ASV Jaya Resources Sdn Bhd, SAM Jaya Plantation Sdn Bhd and Hijau Ria Solution Sdn Bhd), whose principal activities are logging and trading in timber logs, for a cash consideration of RM3.7 million ("Proposed Acquisition").

It was mentioned in the announcement that the Proposed Acquisition would give LKFM the rights of use for over 1,744.5 acres land from the Kelantan State for the purpose of plantation. What are the Company's plan for this land?

The proposed land acquisition is part of the company's plan to venture into forest plantation industry to meet the increasing demand for wood-based upstream products in local and international market. Further development will be announced to bursa securities, if required.