



LOTUS KFM BERHAD
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(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE FORTIETH ANNUAL GENERAL MEETING (“40th AGM”) OF LOTUS KFM BERHAD (“LOTUS” OR “THE COMPANY”) HELD AT EUGENIA BALLROOM (GROUND FLOOR), PALM GARDEN GOLF CLUB, IOI RESORT CITY, 62502 PUTRAJAYA ON WEDNESDAY, 19 MARCH 2025 AT 10:00 A.M.

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

Mr. Lim Lian Chee, the Executive Director of the Company, presented to the Shareholders, the questions received from the MSWG along with the replies from the Board, as summarised follows:-

Operational & Financial Matters

Q1. Flour Milling and Trading Segment

	FYE 2024 RM'000	FYE 2023 RM'000	FYE 2022 RM'000
Revenue	50,318	58,508	66,079
Profit from operations	1,711	3,894	4,879
Operating profit margin (%)	3.4%	6.7%	7.4%

(Pages 117 and 118 of the Annual Report 2024 / AR 2024)

The Group's primary revenue contributor, the flour milling and trading segment experienced a declining revenue trend over the past three financial years. Concurrently, its operating profit margin declined from 7.4% in FYE2022 to 3.4% in FYE2024. The Group explained that the decline in revenue was primarily due to reduce of demand in the operating market. (Page 5 of AR2024)

- (a) Can the Board provide further insights into the declining demand for the Group's flour products and the key factors contributing to the decline in operating profit margin?**

The declining demand for the Group's flour products reduction in operating profit margin likely be attributed to several key factors such as increased competition, market saturation, and higher costs.

- (b) The Group's sales to its major customer A dropped by approximately 30% compared to the previous financial year. (Page 119 of AR2024) What were the reasons for this significant decline in sales?**

Customer A is navigating a highly competitive business environment, where the combination of reduced sales, profitability, orders volumes has created significant challenges. In response to these challenges, Customer A is shifting toward way to maintain or improve their profit margins with cheaper alternative replacement.

- (c) **Has the Group faced pressure from losing customers in the highly competitive market over the past three years? If so, what are the main reasons customers switch suppliers, and how does the Group plan to address this challenge?**

Customers often seek the best value for their money. If competitors offer lower prices or more favorable contract terms, the Group's customers might switch to save costs, especially if the quality is not significantly different.

Addressing these issues will require a strategic approach, including potential product innovation, cost management, and market repositioning to adapt to changing market conditions.

- (d) **Can the Board provide an update on the progress in strategic partnerships and alliances to access new markets, as discussed in the last AGM?**

The Board is actively working on the expansion into new markets, we will continue to provide updates as these initiatives progress and as more concrete developments arise.

Q2. Plantation Segment

Since early 2022, the Group has diversified into plantation businesses, focusing on the planting, harvesting, and processing of fast-growing plant species (Acacia, Gmelina, Albizia, Eucalyptus, and bamboo) into wood chips and bamboo chips. The Group had acquired rights-of-use/lease rights over 3,700 hectares of forest reserve lands/state lands in Negeri Kelantan and Negeri Perak, with a plan for full planting within two years. (Page 5 of the Circular dated 24 February 2022)

- (a) **Can the Board provide a progress update on the number of trees planted and area planted in the plantation estates?**

- *Number of trees planted: 300,833*
- *Area planted: 423 hectares*

- (b) **The Group incurred only RM0.3 million in FYE2024 for immature bearer plant additions (Eucalyptus trees), compared to RM1.0 million in the previous year. (Page 97 of AR2024) Were there challenges faced which slowed down the planting process, and is the planting progress aligned with the Board's expectations?**

The plantation segment is at its planting and growing phase where more costs is incurred in previous year, and mainly costs for maintaining incurred in FYE2024 thus only RM0.3 million.

The lower expenditure of RM0.3 million for immature bearer plant additions in FYE2024, compared to RM1.0 million in the previous year, was due to some delays in the planting process. However, we have a main contractor in place who is responsible for most of the costs, and they bear the financial risk if the results are not satisfactory. While the planting progress may not be fully aligned with initial

expectations, we are working closely with the contractor to ensure that the project stays on track moving forward.

(c) What is the Group's planting plan for the next two financial years?

The Group's planting plan for the next two financial years is focused on maintaining stability and ensuring sustainable growth.

We aim to carefully assess the market conditions, plants performance, and environmental factors to make informed decisions.

While specific acreage and plants allocations may vary depending on the various internal and external factors, any adjustments will be made with a view to long-term sustainability and profitability.

Sustainability Matters

Q1. The Group endeavours to optimise energy usage across its operations to reduce costs and minimise its carbon footprint. The approach includes continuous monitoring of energy consumption, implementing energy-efficient technologies, and identifying opportunities for renewable energy sources. (Page 29 of AR2024)

(a) What percentage of total energy consumption in FYE2024 was sourced from renewable energy?

We are focusing on energy efficiency, with no renewable energy at the moment.

The Group is committed to optimizing energy usage and reducing its carbon footprint, it is important to note that we are still in the early stages of integrating renewable energy into our operations. We are actively exploring opportunities to increase the use of renewable energy in the future and will continue to monitor and implement energy-efficient technologies as part of our long-term sustainability efforts.

(b) What are the planned initiatives and budget allocations for increasing the Group's renewable energy adoption over the next two financial years?

The Group recognizes the importance of renewable energy and is committed to sustainability, commercially viability remains the primary consideration when evaluating potential investments in renewable energy. As such, we are prepared to allocate budget for renewable energy adoption over the next two financial years, if the projects are viable and beneficial.

Q2. The Group has not yet carried out corruption-related risk assessments for its operations. (Page 41 of AR2024)

When will the Group start assessing operations for corruption risks?

The Group acknowledges the importance of conducting corruption-related risk assessments, we are mindful of the costs and resources involved. We believe that it is essential to balance our priorities and will initiate formal assessments when the time is

right, and the conditions are appropriate. In the meantime, we continue to promote a strong anti-corruption culture across our operations and take necessary measures to prevent corruption through ongoing training and internal policies.

QUESTIONS RAISED BY THE SHAREHOLDERS DURING THE MEETING

Questions and comments were raised by the Shareholders during the meeting. These were duly addressed by the Board of Directors, Management and the Company Secretary. The relevant Q&A are summarized below:-

Question 1

Why was there no performance review or outlook presented at the AGM?

The Board apologizes for the omission of a performance review during the AGM. Moving forward, the Company is committed to including comprehensive performance charts and providing detailed updates on business performance over the past 2-3 years in future AGMs. This will ensure shareholders are fully informed about the Company's progress and strategic direction.

Question 2

What is the Company's current market share in Malaysia, particularly in the flour business?

According to available market data, the two (2) leading flour manufacturers in Malaysia are Federal Flour Mills Berhad and Malayan Flour Mills Berhad, collectively holding approximately 60% of the market share. The remaining 40% is largely captured by Sabah and Sarawak, with players like Seberang Flour contributing significantly.

The Company currently holds a relatively small share of less than 5% in the Malaysian flour market. However, its strategic focus is on diversifying its business portfolio, particularly with expansion into the plantation and biomass sectors, as announced in 2022.

Question 3

(a) Are the Company's sales subsidised by the Government?

None of the Company's sales are subsidised by the Government.

(b) Are all flour products subsidised by the Government?

Government subsidies are only applicable to consumer-packaged flour, specifically the 1kg flour bags sold to end consumers. However, the subsidy is quota-based, and not all companies are eligible.

Question 4

Please elaborate on the RM7.5 million prepayment recorded under 'other receivables'?

This prepayment represents deposits paid to Jabatan Perhutanan for the Plantation project in Perak and Kelantan.

Question 5

What is the aging profile of the Company's trade receivables? Have all receivables been fully collected for the 1st quarter of the year?

The Company's trade receivables are well-managed, with credit terms ranging from 30 to 90 days. As of the end of the first quarter, all receivables have been fully collected.

Question 6

(a) What are the sources of wheat and tapioca starch used by the Company? Are these sourced from the plantation or imported?

Wheat is sourced from Australia, while tapioca starch is imported from Thailand and Vietnam. Corn starch is imported from India and China.

(b) Why are these ingredients imported instead of sourced locally?

Both corn starch and tapioca starch are not available locally due to the absence of an established supply chain in Malaysia.

(c) How does the Company manage foreign exchange risk for these imports?

The Company mitigate foreign exchange risk through forward contracts with banking partners.

Question 7

In response to MSWG's question regarding the Company's new business venture related to the plantation, can the Company provide further details on this new initiative?

Yes, the plantation sector has become a key focus for the Company as part of its strategic diversification efforts. We are actively expanding into this area with the aim of establishing a sustainable and profitable business segment.

Question 8

Regarding corruption risks assessment raised by MSWG, what are the Company's major concerns in terms of cost and resources? Given the AI advancements, wouldn't the assessment process be quicker?

The Company already has internal controls in place, both operationally and financially, to mitigate corruption risks. The segregation of duties is in place to prevent conflicts, with operational teams

*Summary of Key Matters discussed at the 40th AGM of the Company held on 19 March 2025
.....cont'd*

having no access to financial functions. Given the transparency of the flour and starch markets, the risk of price manipulation is minimal.

While corruption risk assessments are valuable, the Company believes its existing control system is sufficient. The assessment is an ongoing process rather than a one-time event and is continuously monitored.

Question 9

Can future AGMs be held at venues with better public transportation? The current venue requires a 1km walk from the nearest bus stop. Can a shuttle service be provided after the meeting?

The Company appreciates the feedback and acknowledges the concerns regarding transportation accessibility. We will consider this when selecting venues for future AGMs, with a focus on improving convenience for all attendees.

Question 10

Since the AGM falls during Ramadan fasting month, would the Company consider providing Touch 'n Go credit or snacks for Muslim shareholders, in line with being a Syariah-compliant company?

The Company appreciates the suggestion and will consider this for future AGMs held during the Ramadan fasting month.

Question 11

Would the Company consider giving a token of appreciation to attendees at the AGM?

The Company appreciates the suggestion and will take it into consideration for future AGMs.

Question 12

- (a) The Company has made a payment of RM7.5 million for the logging business. Please elaborate on the plantation project and the expected prospects. How will this impact future revenue?**

The investment covers both Perak and Kelantan, covering 3,700 hectares. The plantation process involves selecting the right seedlings, ensuring proper maintenance, and waiting for trees to grow before harvesting. We do not have any specific revenue projections yet as we need to get authority approvals, planting exercise and prices going forward as the years to come. The land is available, and the investment is relatively small compared to the land size. We ask for patience as we work towards successful implementation, and we will make the necessary announcements as we gain more clarity.

- (b) Could you provide an initial projection for the plantation business, including the number of plants and the current stage of development?**

To date, we have planted approximately 3,000 trees. While tree survival rates can vary, we anticipate that around 2,000 trees will reach maturity. The maturation period for the

trees differs depending on the category of harvesting. For wood chips and paper pulp, the trees are expected to mature in approximately 4 years, while logs will take 7-8 years. As for pricing, we plan to conduct a forecast one to two years before harvesting to ensure we have an accurate market outlook.

Question 13

- (a) Based on the 1st Quarter Report, trade receivables stand at approximately RM6 million, while other receivables amount to RM16 million. Are these amounts within a 30-day aging period and not carried forward from the year 2024?**

Yes, all receivables are within the 30-day turnover limit and are reflected in the 2024 Annual Report.

- (b) Does the company have approximately RM22 million in receivables every month, and if there are delays in payment, would this affect the Company's ability to maintain inventory?**

The trade receivables remain stable. We do not foresee any significant issues with maintaining inventory, as the receivables are aligned with the normal business cycle.

- (c) The cash balance increased by approximately RM60 million. Could you explain the reason for this increase?**

The increase in cash balance was primarily due to the conversion of warrants, which significantly contributed to the inflow of funds

- (d) Will the Company consider a rights issue given its cash balance and plantation plans?**

At present, there are no plans for a rights issue. The Company has sufficient cash reserves to support its operations and ongoing initiatives, including the expansion into the plantation sector.

- (e) Could delayed payments affect the ability to purchase new inventory?**

No, based on the financial reports, the receivables remain stable, and the Company does not anticipate any disruption to inventory management.

Question 14

- (1) Are these directors' fees applicable only to non-executive directors?**

Yes, the fees are applicable exclusively to the non-executive directors. Executive directors are remunerated in accordance with their employment contract, which is consistent with standard industry practices.

- (2) Some other companies provide more detailed specifications regarding directors' fees. For better corporate governance, would it be possible for the company to be more specific in the wording of the resolution title?**

The Company acknowledges the suggestion and will consider it when preparing future notices of AGM. To clarify, the Company only pays directors' fees to non-executive directors, and this is clearly reflected in the Company's disclosures.

Question 15

- (1) Can I clarify whether directors are re-elected every year, or is their term limited to one year only?**

The re-election of directors is governed by the Company's constitution. Directors are subjected to re-election based on a rotation schedule, whereby each director must stand for re-election at least once every three years. It is not the case that the same directors are re-elected annually. The Company maintains a rotation chart to track the re-election schedule of each director.

- (2) When proposing directors for re-election, are external candidates also considered?**

The consideration of external candidates for the Board is within the purview of the Nomination Committee. However, the re-election process pertains specifically to existing directors whose terms are due for re-election in accordance with the Constitution. The Nomination Committee can, at their discretion, consider additional candidates when nominating new directors to the Board.

- (3) Has the Nomination Committee considered external candidates?**

The Nomination Committee has the authority to nominate any suitably qualified individual for appointment to the Board. External candidates may be considered separately when the need for new appointments arises.

Question 16

Is this resolution intended to approve the allotment of shares to a specific party, and if so, has any party been identified for this allocation?

No, there is currently no specific party identified for the allocation of the additional 10% of shares. This resolution is intended to grant a general mandate, allowing the Company the flexibility to issue shares as and when appropriate opportunities arise.

Question 17

Referring to page 7 of the Circular regarding contract works, could you please provide the value of these contract works? Have any comparable competitors been identified for this project?

The contract works pertain to the preparation for planting, and contractors have been assigned to carry out the necessary earthworks, such as land clearing and site preparation. In relation to the related party transaction, the contractor involved is Sing Foong Niap, a company owned by Datuk Wong Sak Kuan. In the comparative figures announced in 2022, we made comparisons with other contractors, and decisions were based on these evaluations.