Strategy & Financial Matters

Q1. The Group aims to diversify planting of crops away from full reliance on oil palm to other crops such as coconut and kenaf to limit the Group's exposure to palm oil price volatility (page 6 of Annual Report 2020 ("AR2020")).

(a) When does the Group target to commence planting of coconut?

At this juncture, the Group has a matured coconut planted area of 54 hectares at an average age of 17 years. There is also about 190 hectares of new coconut plantings during the years of 2018 to 2020. The next phase of new planting is scheduled for the second half of year 2021 which is estimated to be around 300 hectares.

(b) Given that local planters are facing challenges from influx of cheaper Indonesian coconuts in the market, how does the Group plan to penetrate the Malaysian coconut market to compete against local planters and imports of coconuts?

A key issue for the coconuts market in Malaysia is supply shortage which encourages legal and illegal influx of coconuts from Indonesia.

As Indonesia comprises many islands, mature nuts from various places are gathered first before being dispatched to a few entry points in Malaysia. Even though the Indonesian coconuts are cheaper, many of these nuts are of low quality and unfresh due to the journey and rough handling when they reach Malaysia.

Coconut planting in Malaysia is picking up pace and it would soon become an important commodity. As production starts rising, the government may place emphasis on the regulation of its breeding, propagation, and sales just as in the case of rubber and oil palm plantations. This may curb the influx of Indonesian nuts in the future.

For now, apart from selling tender nuts for immediate consumption, the Group plans to enter into long-term sales agreement with downstream manufacturers to produce santan, packed coconut drinks, virgin and standard grade coconut oil. In the future, the Group may venture into coconut processing to generate new revenue streams.

During FY2020, the 54 hectares of matured coconut area yielded an operating profit of about RM18,000 per hectare which was higher than the average operating profit for our matured oil palm area.

Q2. The Group expects that once the government eases the travel restrictions, allowing workers with expired work permits to return home, there may be a labour shortage due to the uncertainty of the incoming of workers (page 63 of AR2020). How many of the Group's foreign workers work permits are expected to expire this year and next year? To what extent will it impact the Group's plantation operations?

The total number of foreign workers whose permits are expiring in 2020 is about 1,500 which is about 8% of our total workforce. As an immediate measure to counter the repatriation of workers due to expiry of their work permits, we have taken the following steps:

a) Implemented a One-off Retention Gratuity payment for those workers who choose to extend their employment contracts and renew their work permits; and

b) In line with our government's aspirations to provide more jobs for locals, we intensified our effort to hire locals for selected jobs such as tractor drivers, security guards and bunch checkers.

As a permanent measure, the Group has intensified its estate mechanisation programme which was initiated in 2019 to reduce dependency on manual labour and optimise the plantation workers productivity. With this key initiative, the Group aims to improve the current land-labour ratio of 8 hectares per worker to 10 hectares per worker thus reducing plantation workforce by 25% by 2024.

Q3. The Group's new 110,000 MT/year capacity oleochemical plant in Prai, Penang is estimated to complete by end of 2021 (page 5 of AR2020). The Group's oleochemical plant utilisation rates has been declining since FY2018 from 83% to 77% in FY2020 (page 48 of AR2020).

With the plant in Prai coming on-stream, how will it impact the Group's oleochemical plant utilisation rates, going forward?

Firstly, for clarity, the stated plant utilisation rate refers to the nameplate capacity utilisation rate which is lower than the effective plant utilisation rate. Under normal operating conditions where a variety of products requiring changeovers are produced, the effective plant utilisation rate is higher for FY2020 at about 87%. The lower plant utilisation rate in FY2020 was mainly due to disruptions caused by the Covid-19 pandemic towards the second half of the financial year.

According to forecasts by most economists, the recovery of the global economy from the pandemic will take place between the middle and end of next year after the mass production of the vaccines. Hence, we expect the Group's plant utilisation rate to decline, but not significantly, in FY2022 after the completion of the new plant which will add 15% to the total plant capacities.

Nevertheless, due to the positive fundamentals of the oleochemical business which is green and renewable chemicals, we are confident that the additional capacity in the new plant will eventually be taken up.

Q4. The share of associates' results of RM144.5 million (2019: RM170.8 million) is lower due to lower sales arising from the COVID-19 pandemic as well as a one-off debt write-down in the European operation (page 64 of AR2020).

What was the amount of the one-off debt write-down in the European operation?

The one-off debt write-down amounts to EUR10.9 million, and IOI Corporation's share of the debt write-down (30%) is EUR3.3 million (RM15.5 million equivalent).

<u>*Corporate Governance Matter*</u>

Q1. Mr. Cheah Tek Kuang, the Independent Non-Executive Director of the Company only attended 4 out of 6 Board meetings, and Audit and Risk Management Committee ("ARMC") meetings - 67% attendance during the financial year (page 91 of AR2020).

What are the reasons for him not being able to attend the other two Board meetings, and ARMC meetings during the financial year?

Mr. Cheah was unable to attend the two Board meetings held in the month of August and November 2019 as both meetings were rescheduled on short notice to a date coinciding with his scheduled travel plans. Likewise, the ARMC meetings were also rescheduled to be on the same dates as the said Board meetings.