Appendix A

LUXCHEM CORPORATION BERHAD (224414-D)
(Incorporated in Malaysia)

SUMMARY OF THE COMMENTS AND ISSUES RAISED BY THE MEMBERS AND THE REPONSES BY THE BOARD AND MANAGEMENT AT THE TWENTY-FIFTH ANNUAL GENERAL MEETING OF THE COMPANY HELD ON FRIDAY, 5 MAY 2017

Mr Tan Yap Seng, a shareholder, raised the following questions:

(i) With reference to Management Discussion and Analysis ("MD&A") in the Annual Report 2016 ("AR 2016"), export sales had increased in 2016 compared with 2015, what is the company strategy for export market?

Reply
Madam Chen Moi Kew ("Madam Chen") replied that the increased from export segmentation in 2016 in term of value was mainly attributed from exports to Vietnam and Indonesia because company had set up companies and operation teams in both countries and the latter was set up for 5 or 6 years ago to adapt to the market's culture, thus the sales was increased substantially in 2016. Meanwhile, the substantial increased in term of percentage was mainly derived from exports to Australia because the company was currently penetrating the market.

Mr Tang Ying See ("Mr Tang") added that the export market is the future direction of the company. The company expanded to overseas was due to limited market size in Malaysia. For the moment, Company was targeting to export to ASEAN Countries to generate more sales and shorter distance was one of the reason company exports to Australia. Mr Tang said company would strive to put in more efforts to improve company performance in the existing market because company would need to spend a lot of time and efforts to learn and adapt the culture in a new market. Furthermore, the competition would be very intense. Hence, company would need to study the market trend and expand conservatively.

(ii) Majority shareholders in the AR 2016 were individual holders, retail investors and management team, what was the company's effort committed to promote its shares to the institutional investors and fund managers in order to boost the share price as one of the rivals was trading at 22 times of its price earnings ("PE") ratio, but the company only traded at 9 or 10 times of its PE ratio. Furthermore, the net profit of the company was increased nearly 100% from RM7 million to RM13.6 million in first quarter of 2017. With such good performance results, the valuation of the company's shares should come from the institutional shareholders and not the individual shareholders who should move the share price of the company to at least 50% more than its current price.

Reply
Madam Chen agreed that company had been trading in moderate or low PE if compared with other companies because the needs for institutional analyst and market research were relatively low. She explained that company had been focusing on its business growth by achieving turnover of RM700 million in 2016 with only 194 headcounts in the workforce for Luxchem Group of Companies. Though, company

had been making effort to meet investor's needs, e.g. the management team would be meeting market research company after the following 2017 Annual General Meeting ("2017 AGM") and had been liaising or communicating with Fund Manager from Singapore, who is one of the shareholders in 2017 AGM.

Mr Tang added that, in Inter-Pacific Research report, they targeted LCB share price at RM2.00. However, despite this, the share price did not increase to RM2.00. Therefore, market price may not be affected by research/ analyst write ups. The Company could only expand its business and generate more profit, and subsequently to reward the shareholder in the future.

Mr Ng Soo Har @ Ng Seet Kow (" S. K. NG"), a shareholder, questioned on the following matters:

(i) What is the company future outlook in 2 to 5 years under the present challenging economic and political environment?

<u>Reply</u>
Mr Tang replied that the current market remains challenging and constantly uncertain, i.e. fluctuation price in crude oil and currency exchange. However, he was confident that company would be able to manage and deal with the uncertainty and variables from its 30 years of experience and strong management team. Company would continue to expand its business in Vietnam and Indonesia and seek opportunities in overseas. This is the future direction of the company.

Ms Kok Chiew Sia, a proxy, commended the company for the good results achieved in 2016 and raised the following questions:

(i) What are the reasons attributed to the increase of earning performance in 2015 and 2016 compared with 2014 and 2013? Was it caused by depreciation in Ringgit Malaysia against US dollar?

<u>Reply</u>
Madam Chen responded that the increase of earning in 2016 was attributed to quantity/volume growth; it had increased 3% from 2015 to 2016, mainly contributed from Indonesia. In addition, the weakening Ringgit Malaysia had also contributed positive effect on the company revenue as 1 US dollar exchange rate was increased from RM3.9 in 2015 to RM4.14 in 2016 but overall the raw material price in 2016 was lower compared with 2015.

(ii) What is the foreign exchange exposure for the company? Does the company have hedging policy or any other policy to manage or deal with foreign currency exchange risk?

<u>Reply</u>
Madam Chen replied that Central Bank of Malaysia had on 2 December 2016 released the measures and policies to restrict and strengthen the rules on the transaction or dealing in foreign exchange, which include among others to prohibit local company to trade in US Dollars. Hence, company have to provide evidence to

the Central Bank, their obligation and proceeds in US dollar (i.e. if a company is receiving US dollar from its customer and paying supplier in the same currency) and company is in the midst of managing it. For those customer paying in Ringgit Malaysia, company would adopt hedging policy and observe the currency on daily basis to pay its creditors within the credit term. On the other hand, the company would immediately cover its position for back-to-back deal and low margin transaction (i.e. by using spot rate). Madam Chen also acknowledged that company currently has sufficient hedging policies and lines with the Banks.

(iii) What is the trend of the raw material price moving forward and how it affects company's future operations?

Reply
Madam Chen explained that Luxchem Polymer Industries Sdn Bhd has been purchasing raw materials to manufacture goods whilst Luxchem Trading Sdn Bhd has been purchasing raw materials for trading purpose. She further invites Mr Tang to elaborate more.

Mr Tang highlighted one of the raw material for petrol chemical products which is related to crude oil and thus the price of the crude oil is significantly affecting the industry, the crude oil price would be affected by supply and demand in the market. With the strong management team, they have been managing the business well and monitoring the crude oil price daily, hence he was confident that company would achieve positive outcome, despite at times, the company was incapable to predict the price of the crude oil.

(iv) Ms Kok agreed that acquisition of Transform Master Sdn Bhd in 2016 have given synergy to the company in latex industry; however she commented that the acquisition price of RM45 million (inclusive of RM35 million in goodwill) was on the high side and sought justification from the management.

Reply
Madam Chen replied that the acquisition was completed on 29 April 2016 and the valuation report dated 1 April 2016 was prepared by BDO Capital Consultants Sdn. Bhd. and Ms Kok may request a copy from Share Registrar after the meeting. The values was mainly derived from the forecast growth of Transform Master Sdn Bhd ("TMSB") in the next few years in term of cash flow and discounted the value by adopting "weighted average cost of capital".

Mr Tang said one of the reason company's revenue increased in 2016 was derived from TMSB's income. As everyone knows, the glove industry was the strongest industry in Malaysia and it captured nearly 60% from the world market and the company is one of the key suppliers to this field. TMSB is a manufacturing company and provides finished goods to Luxchem Trading Sdn Bhd for export to overseas, hence the acquisition of TMSB has added value to the company's operations. It was the company's strategy to acquire manufacturing company because it would improve the group performance and provide more services to the customers, thus build stronger foundation for the company to become more competitive in the market.

(v) Was the acquisition of TMSB considered as related party transaction?

Reply
Madam Chen replied in the negative and clarified the vendors were not related persons to the company.

(vi) What was the component under the item "other investments" in the notes to the Financial Statements, how to derive the amount of RM847,179 for "Shares in Malaysia: Quoted" in 2016?

Reply
Madam Chen replied the amount was the current market price and quoted in KLSE as at 31 December 2016, the company hadn't purchased any shares from the market, and the company had purchased the shares many years ago from its customers or suppliers during their Initial Public Offering in Bursa Malaysia Stock Exchange. The initial purchased cost was only about RM100,000 in few years back and the company have no intention to sell or buy any shares for the time being.

Madam Chen further explained that "unquoted – Shares in Malaysia" in 2016 amounting to RM110,000 was an investment of the company in glove related industry, comprising 9% shareholding in Shinko Ceramics (M) Sdn Bhd (one of the former biggest supplier in glove industry) for more than 20 years. Mr Tang added that to uphold company's business ethics, company would thrive to expand in upstream and avoid investment on downstream business.

(vii) What is the company's current market position or ranking in the industry?

Reply
Mr Tang replied he did not have the exact information because chemical industry consists of variety fields, including fertilizer, food, plastic and etc. Currently, company is focusing on rubber, gloves and plastic. The company will position itself as top 5 suppliers in the industry.

(viii) The current outstanding Employee Share Option Scheme ("ESOS") is 10 million shares, and the maximum issuance of ESOS is 15% from its authorised share capital, would company allocate more shares for ESOS?

Reply
Madam Chen responded that ESOS was approved by Bursa Securities Malaysia Berhad and implemented in December 2014 and the share capital was 260,000,000 units of shares. The establishment of ESOS involved issuance of up to 15% of the issued and paid up capital, which is 39,000,000 units of shares to the eligible directors and employee of the company and subsidiaries. As of to-date, the company had issued three grants, of which equal to approximately 35.9 million shares to the eligible employees, the 10 million outstanding ESOS shares could be referring to the shares, which had not been vested and not exercised by the employees yet as at 31 Mar 17. The company has a balance of approximately 3.1 million ESOS shares to be issued up to 30 November 2019 and would not allocate more shares for ESOS this year.

LUXCHEM CORPORATION BERHAD (224414-D)
- **Summary of the comments and issues raised by the members and the responses by the Board and Management at the 25th Annual General Meeting of the Company held on 5 May 2017**

Mr Tan Yap Seng, a shareholder had given a positive feedback for the acquisition of TMSB and asked the following questions:

(i) The acquisition price of TMSB was RM46 million, and 20% of the price consideration which equivalent to RM9 million was paid by means of issuance of new ordinary shares, how was the share price fixed or determined? Whether there was any moratorium imposed on these new shares issued?

Reply
Madam Chen replied that a total of about 5 million shares were issued at the share price equivalent to RM1.7744 per share was calculated based on the weighted average price on 5 market days prior to the signing of the agreement with TMSB vendors and there was no moratorium on shares and TMSB vendors could sell the shares at anytime.

(ii) Have TMSB conducted any assessment or impairment on its goodwill every year? Would impairment affecting the profit and loss account and if there is impairment, whether it is allowed to make a claim for tax deduction?

Reply
Madam Chen responded that goodwill would be subjected to impairment test annually and there was no impairment for TMSB in 2016, and the valuation was agreed by the External Auditor. She added that if there is any impairment, it would definitely affecting the profit and loss account. External Auditor confirmed that impairment is not allowed to make a claim for tax deduction.

Mr William Ng, a proxy had requested the company to do a short presentation to introduce the company background, products, present and future market conditions and asked the following questions:

(i) For the revenue classified by geographical segments, what is the current market situation and future prospect in Vietnam as the revenue was increased substantially in 2016 compared with the preceding year? Why the revenue in 2016 from Myanmar, Singapore and Bangladesh have dropped, compared with 2015? What is the reason for the drop in revenue in these countries? What is the main reason the revenue in local market in 2016 has dropped and would it be continuously dropping?

Reply
Madam Chen explained local market revenue was decreased RM12 million from preceding year, which was due to softer market demand in Luxchem Trading Sdn Bhd, however, TMSB had compensated part of it. Overall, the sales in local market had dropped which caused by weakening market demand and stiffer competition. Separately, company had generated higher revenue In Vietnam, and nearly 90% of the sales were derived from Unsaturated Polymer Resins ("UPR"). A subsidiary of the company had been incorporated in Vietnam to venture and expand into more products range, e.g. latex, PVC and etc. however, the company would still be focusing on UPR. In Indonesia's market, PT Luxchem Indonesia would be focusing in Polyvinyl Choride ("PVC") and Fibreglass Reinforced Plastics ("FRP") industry for the year.

Mr Tang clarified that company has been exporting manufacturing products to Vietnam for more than 10 years. The company believed that there would be a good future prospect in Vietnam and thus incorporated an oversea subsidiary company to expand its business there. Company does not have any expansion plan in Myanmar thus far and would only focus its business in Indonesia, Vietnam and Australia.

(ii) For inventory level in 2016, what was the reason to stock up nearly doubled to the volume in 2015 and it was not commensurate with the revenue? Was there a necessary to stock up so much raw materials and trading goods? Was company expected to generate more sales or to cope with fluctuation of raw material's price?

Reply
Madam Chen informed that inventory was increased from RM51.2 million in 2015 to RM72.6 million in 2016, the average holding period was 1.4 month in 2016 compared with approximately 1 month in 2015. The overall increased was due to price trend or historical price of the raw material as company predicted that the price was likely to be increased further and Goods-in-Transit as at 31 December 2016 was accounted for more than RM10 million. In accounting practice, Goods-in-Transit is considered as inventory.

Mr Tang explained when the raw material price is on increasing trends, company tends to purchase more because the selling price cannot be simply adjusted or transfer the cost directly to the customers. For trading concern, the normal stock holding is 30 days and it is very curial for company to manage its cash flow. Also, the company have its own policy to monitor the price of raw material and stock holding days.

Madam Chen also responded that raw material on item 11 in the notes to the financial statements was referring to raw material purchased by Luxchem Polymer Industries Sdn. Bhd. and TMSB, whilst trading goods in the inventory was referring to Luxchem Trading Sdn. Bhd. and PT Luxchem Indonesia.

(iii) In term of deposits, cash and bank balances, the dividend or interest earning in some of the banks have decreased, was the "deposits with financial institutions" referring to fixed deposit in the Bank or in money market based and would there be any tax implication? Whether the "cash and bank balances" earned any interest income?

Reply
Madam Chen replied the RM21.4 million in "deposits with financial institution" in 2016 including short term deposits and fixed deposits with the Bank. Whereas some of the "cash and bank balances" were not entitled for interest in the current account as the banks would not give interest if the bank balances had exceeded certain amount in current account. Overall, the cash position of the company was healthy and not excessively high and the total "deposits, cash and bank balances" reduced from RM113.2 million in 2015 to RM88.4 million in 2016 was mainly attributed to the acquisition of TMSB in 2016.

(iv) What was the reason behind for reversal of impairment loss on trade receivables and reversal of inventories written down?

Reply
Madam Chen responded company have monthly policy to review and monitor stock and inventories kept above 3, 4 and 5 months. Relatively, company would review stock and inventories kept above 6 months during financial year end and impairment test would be conducted because it was probable that out of 900 products, some of them were slow-moving or did not meet customer's specifications. To be prudence and to meet accounting requirement, those obsolete products would classify as impairment. Both reversals mentioned earlier were denoted as company managed to find a buyer for that products.

Mr Tang further explained that the shelf life for chemical products was about two to three years, but the company policy was to make provision for the inventory or goods, which have been kept above six months and reversal would be made once the products was sold.

(v) Would company implement dividend policy as currently company is rich in cash and whether the company have any expansion plan or intention to take over any company?

Reply
Madam Chen replied that currently company does not have any dividend policy, but company has been declaring about 40% to 50% from its profit and the dividend payment was also depending on the company's cash flow.

Mr Tang responded company had expanded its business to Vietnam and Indonesia and also acquired TMSB in 2016, hence company required more time to understand the new market, new acquired business i.e. TMSB, and grow the business. The company would further invest in the existing market if appropriate.

Madam Chen added that company would present the overview of the business and business operations of the company in 2018 Annual General Meeting.

Mr Tan Kee Sau, a shareholder raised the following questions:

(i) How much of the company sales attributed from gloves industry? Does Company supplying material for nitrile gloves besides latex gloves as the demand for nitrile gloves seems increasing? Whether the company also supplying chemicals to mattress and condom industries?

Reply
Madam Chen replied that company has been supplying nitrile, latex, and latex chemical and chemical dispersant to its customers. In 2017, latex division contributed about 26% from the total sales volume.

Mr Tang highlighted that the company's focus was in the gloves industry instead of condom and mattress industries and the company was the pioneer to promote nitrile rubber in Malaysia. For industrial sector, the company provides full range of products including latex, latex chemical, dispersions and etc. The company is one of the key suppliers to certain industries. Furthermore, acquisition of TMSB in 2016 was one of the reasons to institute synergy effect to the group.

Further to Mr William Ng (proxy)'s query in "cash and bank balances", he continued to raise the following questions:

(i) Is there any other ways for company to generate more income from its high level of cash and bank balances? Would company implement fixed dividend policy?

Reply
Madam Chen replied company have to maintain sufficient cash level for short term use in chemical industry and would not take additional risks to invest in share market or investment funds. In addition, company would have more bargaining power at the selling price by paying cash to its suppliers. Nevertheless, company does not have any dividend policy for the moment.

Mr Tang added that company has been running smoothly by adopting prudent concept. The cash and bank balance is barely enough for company's turnover for one to two months, company would be facing a lot of problems and opportunity cost (i.e. to purchase raw material when price goes up) if the cash and bank balances is not maintained at sufficient levels.

(ii) Whether the company has any plan to set up a factory in Vietnam?

Reply
Mr Tang informed that the Vietnam's market is totally new to the company because the culture and market are unknown. There are a lot of issues to be taken into consideration i.e. free-trade agreement, language, culture, market's condition, technology and etc, although the market is just opened to the world. The Company has been very careful and prudent in expanding its business (e.g. setting up office in Vietnam to understand the market's condition and culture) due to variables and a lot of uncertainties. Similarly, the company took five years to understand the business conditions in Indonesia as their foreign exchange policy has constantly changed.

(iii) How much was TMSB contributed to company's revenue and what is TMSB future prospect?

Reply
Madam Chen replied the revenue for TMSB in 2016 was about RM32million; however the revenue generated to the company was about RM20 million in 2016 because the income was consolidated on 1 May 2016 after the acquisition of TMSB completed. TMSB had contributed RM10 million to the company's revenue on the first quarter financial year ending 2017's result.

Mr Tang commented that it was an ideal transaction to acquire TMSB because prior to the acquisition, TMSB had limited key customers. However, currently, TMSB can expand its customer base, including overseas, via Luxchem Trading Sdn Bhd.

(iv) Please explain what is the financial guarantee provided for its subsidiaries and why the amount had increased RM42 million or 75% from RM56 million in financial year ended 2016 to RM98.33 million in first quarter of financial year ending 2017?

Reply
Madam Chen replied the financial guarantee was provided to Luxchem Trading Sdn Bhd, Luxchem Polymer Industries Sdn Bhd, Transform Master Sdn Bhd and PT Luxchem Indonesia. All of the loan facilities were unsecured but it was guaranteed by the company at no cost and no collateral required. The RM98.33 million in the first quarterly report 2017 was referred to the banker acceptances or trade finance outstanding from the bank and the purpose was for working capital, i.e. offshore loan or credit facilities from bankers to purchase raw materials.

(v) The financial guarantee is on the increasing trend. Whether the company is going to increase its gearing?

Reply
Mr Tang explained that to purchase raw material from well established company, i.e. Shell, the supplier would accept corporate guarantee and give credit term to the buyer, who have strong financial background in their balance sheet. As a result, it is in favour for the company because the risk level was relatively low and less hassle.

Madam Chen further explained that Sometimes, the company or subsidiaries of the company would utilise the line of the facility although they had sufficient cash because the banks would pull back the facility if it is not utilised for six months and they would be facing difficulty to re-apply and stamp-duty fee will be incurred.

Ms Kok Chiew Sia, a proxy, raised the following questions:

(i) What is the full year revenue and profits for TMSB in 2016?

Reply
Madam Chen responded that the company consolidated revenue of RM20.6 million from TMSB from 1 May 2016 to 31 December 2016. If the acquisition had occurred at the beginning of the financial year, the complete year income would be RM32 million and profit for the year would be RM2.6 million. However, the total contribution of RM16.55 million from TMSB to the company on page 14 of the Annual Report had deducted inter-company transaction.

(ii) What is the future direction of the company? Whether the first quarter 2017 results reflecting a good indication for the whole year?

Reply
Mr Tang explained that to avoid conflict of interest with customers, company would not venture into manufacturing, i.e. the downstream business. However, the upfront cost was very high to expand its upstream business and the market size was limited in Malaysia. Nonetheless, company would continue to explore for more opportunities, which was similarly to TMSB, a supplier and manufacturer of chemical products.

Madam Chen responded that it was difficult to predict the full year results due to uncertainties, i.e. foreign exchanged exposure and fluctuation of raw material price.

Mr Tang added that based on past records, the results would be varied in almost every quarter and could not guarantee on the results to be achieved by the end of this financial year.

(iii) Please introduce the auditor and how long have the auditor served the company? Should the auditor who has been serving the company for more than 5 years be changed to comply with Code on Corporate Governance? Who are the Auditors' clients which are the Public Listed Companies in Malaysia?

Reply

Mr Ooi Chee Kun (the audit partner from Messrs Folks DFK & Co) responded that the Firm has been auditing the company since 1984. He informed that currently there are no specific requirements in the Code of Corporate Governance with regard to the rotation of audit firm, however, there is a requirement in Malaysia to rotate engagement partner (but not audit firm) and quality control partner every five years.

Internationally, this requirement is stipulated under the International Standard on Quality Control 1 (or known as "ISQC1") which requires a rotation for every 7 years for both the engagement partner and quality control partner. However in Malaysia, the requirement has been shorten to 5 years which is more stringent than the international requirements. The Firm is a member of an international association of accounting firms, called DFK. The headquarters is in the United Kingdom with participating members from 60 to 70 countries. Messrs Folks DFK & Co is considered as a medium-sized firm in Malaysia with a workforce of approximately 200-300 employees.

In relation to the audit of Public Interest Entities, which include public listed companies, those audit firms must be registered with the Audit Oversight Board of the Malaysian Securities Commission. Currently, the Firm has about 15-20 Public Interest Entities.

Mr Gan Hwa Soon, a shareholder questioned the management what was the dominant cause for the substantial increase on external audit fees?

Reply:

Madam Chen replied that the management and directors had already approved the audit fees earlier. One of the reasons for the increase was attributed to the acquisition of TMSB because their account in 2015 had to reinstate for compliance with MFRS. In addition, Bursa Securities Malaysia Berhad now requires external auditor to verify the contents in the Annual Reports.

Mr Ooi Chee Kun further explained that the audit fees amounting to RM272,000 in 2016 had included the company and its subsidiaries which were charged by the Firm and auditors of the subsidiaries which were not audited by the Firm. The audit fees in Indonesia and Vietnam had increased because the increase in their level of activities in 2016 and Singapore's business activity had been re-activated as well the acquisition of Transform

Master in 2016. In addition, there were also added reporting responsibilities on auditors to report on Key Audit Matters and to review the financial and non-financial information contained in the entire annual report as required by the International Standards on Auditing to avoid any inconsistencies with the financial statements. Overall, the time required to perform an audit, cost of manpower and the cost of doing business had gone up. The audit fee is not likely to reduce in future but will only increase as the wage rate and price for consumer goods will continuously increase.