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-SIXTH ANNUAL GENERAL MEETING OF THE COMPANY HELD ON MONDAY, 7 MAY 2018

Mr Wan Heng Wah, a shareholder, raised the following questions:

(i) Based on the macro overview and results that the Company achieved in the financial year 2017, the Company did not do well although the revenue of the Company increased from RM700 million to RM800 million, which was due do the fluctuation in raw material prices and US Dollar against Ringgit Malaysia. The Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") reduced to approximately RM59 million from RM62 million, and Profit After Tax and Minority Interest ("PATAMI") also decreased from RM43.4 million to RM41 million, mainly due to the fluctuation of exchange rate of US Dollar against Ringgit Malaysia and raw material prices. Kindly advise whether the Company is expecting to face similar trends in this current financial year that will adversely affect the EBITDA, PATAMI as well as revenue.

Reply
Madam Chen Moi Kew ("Madam Chen"), the Chief Financial Officer replied as follows:

The Company had high foreign exchange ("Forex") gain in financial year 2016. Over the years, 20% of Luxchem Group's export was denominated in US Dollar whereas purchases of the Group were about 70%. As you can see, that is a very huge requirement for US Dollar compared with the incoming US Dollar. So naturally, when the Company received US Dollar, the Company will keep it as we will need to use it since the Company is not in the business of buying and selling. Despite the scenario, there is no rate movement in US Dollar and there will be a spread in the exchange rate. Therefore, it is very natural for most companies to do a natural hedge.

At any time, the Company has 20% US Dollar, mainly from its proceeds, in the Company's account, which will keep rolling. Please refer to the financial statements. By the end of last year, the amount of US Dollar in the Company was about RM30 million, which is equivalent to USD7 million. This explains basically the realised portion because it was a downward trend from financial year 2016 to financial year 2017. As at 31 December 2016, the exchange rate was 4.486 whilst as at 31 December 2017 it was 4.0475.

It was still a downward trend in the first quarter. As at 30 March 2018, it was at 3.863, down from 4.0475 as at 31 December 2017, but it is currently showing an upward trend. Regardless of whether the trend is down or up, the Company is reducing the US Dollar in its account by hedging forward to sell.

In terms of the raw material prices, they are determined by supply and demand. In the first quarter of 2018, it picked up slightly from the last quarter but it was not as stable as the last quarter. In terms of the quantity, the Company is almost at par in 2016 and 2017 with a decline of 2%. Therefore, the main reason affecting the performance of financial year 2017 was mainly Forex.

(ii) The second question is regarding the new capacity for the Company's Unsaturated Polyester Resin ("UPR") plant in Cheng, Malacca. I believe that the Company is still looking towards the expansion of capacity for the UPR? What is the Company's future plan pertaining to increasing the capacity of the plant so as to reap the benefit from economy of scale. On the other hand, is the Company also looking at increasing the capacity of the latex chemical dispersions plant in Sitiawan, Perak?

Reply
Madam Chen replied as follows:

In financial year 2017, the capacity of Luxchem Polymer Industries Sdn Bhd's ("LPI") plant in Cheng, Malacca, was about 30,000 metric ton. The Company utilised close to 80 to 90% of the capacity. It was lower than financial year 2016 when the Company utilised more than 100%. The decline in financial year 2017 was mainly due to the soft export market.

In terms of Transform Master Sdn Bhd ("TMSB") (the plant in Sitiawan, Perak), the capacity as at financial year 2017 was 9,600 metric ton, which is already full capacity. In the first quarter of 2018, the plant already operated at the new capacity of 13,800 metric ton. The usage in January 2018 and February 2018 was lower as the plant at the testing stage; however, the usage has increased.

In relation to the expansion in Cheng, Malacca, the capacity was expanded to 40,000 metric ton. It was commercially run in April 2018; however, the plant has yet to reach its maximum capacity.

In terms of TMSB, the Company still plans to increase its number of machines in preparation for future growth.

(iii) The third question is pertaining to the Forex losses. It was not satisfactory because the realised Forex losses was RM2.4 million as against less than RM5,000 in the previous financial year. Therefore, is it the Company's priority to have a better management of the Forex exposure, especially in realised Forex losses? Similarly, there was an additional receivable write-off of RM1 million against approximately RM200,000 in the previous financial year. What is the Company planning to do to mitigate the losses from the receivable write-off? This is also applicable to the inventory write-off of about RM657,097 against the previous financial year of RM607,825. Is the Company focusing on better management on the inventory losses?

Reply
Madam Chen replied as follows:

The Forex losses are covered under question (i) above. In terms of impairment of receivables, the Group has a policy that impairment will be made on any receivable account that is more than six months overdue based on prudent basis. The Company will try to collect the overdue amount. In the financial year 2016, the Company had a positive position where the receivable recovery was higher than impairment on receivables. In the financial year 2017, the Company had a net impairment of RM497,000, which was only 0.06% of the Group's revenue of RM806 million. Overall, the Company would have positive or negative figures in different financial years. Some recovery on the impairment of RM497,000 in the financial year 2017 was made in the first quarter of the financial year 2018. However, the amount is not significant and those are customers that have been with the Company for more than 10 years, of which two of the major receivable accounts with impairment of approximately RM700,000 in the financial year 2017. The Company is collecting from them and continues to sell to them in view that the two major accounts have been in business with the Company for many years.

In relation to the impairment of inventories, the Group has a similar policy on inventories, where impairment will be made on any inventories that are more than six months old. The Group also compare the inventories value with the market value if there is a scenario of the raw material prices dropping, the Company is required to write down the value of the inventories. In the financial year 2017, the Group had inventory written down of RM657,000 but the Company had a reversal of inventories written down of RM736,000; therefore, the Company had a net gain in inventories written off. In the financial year 2016, the Company had a net loss in inventories written off. The Company applies a prudent basis on the inventories written off. As the Company sells the inventories, reversal is made as the inventories are sold.

(iv) Is the Company looking into ensuring better productivity, cost and management of operation as well as the cost optimisation?

Reply
Mr Tang Ying See ("Mr Tang"), the Managing Director/Chief Executive Officer of the Company, replied as follows:

LPI's capacity was 30,000 metric ton per annum before expansion. In the financial year 2017, the capacity was increased to 40,000 metric ton. In the previous expansion from 20,000 to 30,000 metric ton, the capacity was fully utilised within six months. As the Company's marketing strategy was focused on export marketing, the Company had insufficient goods to sell when it was operating at full capacity; therefore, the Company expanded the capacity to 40,000 metric ton.

Mr Tang added: "There were many newcomers into the market, which increased the competition. The Company is currently focusing on LPI's medium- to long-term planning as the Malaysian market is very small. LPI has more than 40% of the market share at the moment and therefore, the Company is aiming for the ASEAN market of approximately 600 million populations. The Company is now catering for the Indonesian market and Vietnamese markets, which is the company's strategy to venture into the ASEAN region. However, the result of this strategy may take some time to materialise.

In addition, the raw material price of the Company is related to crude oil, which is unpredictable. The Company can only manage to minimise the damage to the business. The only way to overcome this issue is to manage the Company's inventories efficiently to tackle the fluctuation of raw material price. The price is determined by market force, and we believe our competitors are also facing the same problem. Therefore, the Company has stringent inventory control and the inventories holding is less than 30 days. The receivables collection is also managed in a prudent manner. There are too many variables and the Company can only make sure it is always operating efficiently. The Company is ISO certified and the team review the Company's performance on monthly basis. The Company is always working towards improvement on efficiency. In a nutshell, the market force is still the major factor affecting the raw material price and the Company is unable to guarantee good performance all the time. Overall, the Company is still performing satisfactorily, although the Company did not perform as well as the financial year 2016.

(v) Please confirm the impairment of receivable accounts that are six months overdue and inventories are made based on prudent basis and such impairment on receivables will not turn into bad debts or obsolete inventories.

Reply
Madam Chen replied as follows:

The Company is unable to guarantee that the receivables will not turn into bad debts and the inventories will not turn obsolete. The Company do have bad debts and obsolete inventories; however, it is minimal. Sometimes the inventories may be slow moving, or the Company had bought the inventory for particular customers but they had ceased production. In such circumstances, the Company will try to sell the products to other customers or may ask vendors whether they have any customers that need similar products or the Company may negotiate with the vendors to ship the excess inventories back to the vendors. As mentioned earlier, the inventories written off and bad debts of the Company are minimal. The company reviews stock position and debtor aging every month.

The Company is unable guarantee 0% bad debts to the shareholders. However, with reference to the percentage of bad debts against the revenue of the Group, the Company stands at a reasonable and comfortable position. In the financial year 2017, the bad debts written off of the Company were merely RM14,572.

(vi) Please confirm whether the Company is trying to reduce the gap between the incoming and outgoing US Dollar and that the Company will not be badly affected by the fluctuation in US Dollar.

Reply
Madam Chen replied as follows:

The Company will strive to increase export sales to narrow the gap between proceed and payment in US Dollar.

(vii) Who is the main competitor of the Company in Klang?

Reply
Mr Tang replied as follows:

Shareholders may make comparison with other listed companies in the chemical industry on Bursa Malaysia Securities Berhad.

Mr Leo Ann Puat ("Mr Leo"), a shareholder, suggested and raised the following questions to the Board of Directors:

(i) Please introduce the Board of Directors to the shareholders and provide a brief financial performance presentation before moving into the agenda of the Annual General Meeting.

Reply
The Board of Directors took note of the request.

(ii) With reference to the Company's performance in the financial year 2017, the sales of the Company increased by approximately RM100 million whereby the profit for the year was slightly lower due to the cost of sales. After listening to Madam Chen's presentation, I understand that the Company is not easy to manage. I note that the profitability of the Company was affected by Forex between the financial years 2016 and 2017, impairments and fair value adjustments. Putting aside all the non-cash items, impairments and fair value adjustments, and with all other factors remaining equal or unchanged, is the profit of the Company better than the last financial year arising from the increment of RM100 million?

Reply
Madam Chen replied as follows:

The important determinant of performance is revenue of the Company. The Company has to assess whether the changes in revenue were due to changes in quantity or price. If price be the factor, the Company has to assess whether it was affected by the US Dollar or the raw material prices, or whether the Company was able to penetrate into the market at a much better price than the competitors', and secure a good position in the market. In the financial year 2017, the main factors causing the increase in revenue were the raw material price and US Dollar. In terms of quantity, the quantity sold dropped about 2%. The Company will perform analysis on the reason for the decrease in quantity to identify the declining segment, and supply and demand of the segment.

The second determinant is the margin the Company. The margin for the financial year 2016 was 11.86% and it decreased to 10.7% in the financial year 2017. The Company will then analyse the items that caused the margin fluctuation. The aforesaid is the method used by the Company to evaluate the performance of the Company.

Mr Tang commented that the financial year 2016 was a better year and financial year 2017 was tougher. In the first quarter of 2016, the raw material price and the US Dollar exchange rate increased significantly. However, in the second quarter of the same financial year, both raw material price and US Dollar exchange rate declined, causing a huge fluctuation. In the financial year 2017, there was a lot of fluctuation, caused by uncertainties, especially the issues arising from the US and China. As for this year, the Company will do our very best to monitor the market closely. The Company always consults bankers to seek their opinions pertaining to the short-term management of Forex.

To Mr Leo's query on whether appreciation or depreciation of Ringgit Malaysia was better for the performance of the Company, Mr Tang replied: From past experience, the Company will perform better when Ringgit Malaysia is weaker against US Dollar

(iii) How does the Company manage its Forex that may affect the performance tremendously? Does the Company have an in-house Forex management team or an external consultant? Are there are any Forex policies or procedures and who are responsible for the material Forex transactions of the Company?

<u>Reply</u>
Madam Chen replied as follows:

The Company works closely with the banks. The Company does not have a Forex treasury department and all Forex-related matters are managed by the finance department. The finance department calls the banks daily to track the Forex rate and disseminate the information to all key sales persons and Mr Tang. The finance department will check with the banks for their comments as to whether the Company should sell forward or buy forward. The Company adopts a simple hedging method instead of sophisticated hedging tools.

The Senior Management, Commercial Director and Mr Tang are responsible for all the Forex decisions.

Mr Tang highlighted that the Company has an Indonesia subsidiary, namely, PT Luxchem Indonesia, where the fluctuation of the Rupiah is more volatile. This is more difficult for the Company to manage.
To Mr Leo's query on whether the Company has inventories in Indonesia or the Company exports to Indonesia, Mr Tang replied that the Company keeps inventories

in Indonesia. The Company is trying to understand the local market in Indonesia as it is a huge market. It has more variables to be considered and thus, the Company has to progress slowly prior to increasing its volume in Indonesia. The Company has approximately USD25 million turnover in Indonesia.

To Mr Leo's suggestion to consider building a factory in Indonesia as a long-term plan of the Company, Mr Tang responded that the Company is doing trading to understand the market in Indonesia first and is looking out for opportunities.

(iv) Based on the geographical segments, we note that Malaysia has the highest revenue. Do all the other countries have only export transactions? Is there any manufacturing outside Malaysia?

Reply
Madam Chen replied there was no manufacturing overseas. All manufacturing is done in Cheng, Malacca and Sitiawan, Perak.

(v) What is the market share of the Company in the industry and how is the Company's performance compared with our competitors?

Reply
Mr Tang replied that no studies had been done on the market share. However, he believed that the Company is one of the major suppliers in the industry. The Company positions itself to be one of the top five players in the industry.

(vi) What are the Company's advantages compared with the competitors?

Reply
Mr Tang replied the Company has close relations with the customers in the local market. The Company introduces new products to the customers, works together with them and sometimes, the Company supports customers who are facing financial difficulties. Moreover, the Company continues to supply to customers who face tight cash flow. This close relationship with the customers can be seen in the local market. The Company is still looking at strengthening its overseas market to achieve a similar advantage.

(vii) In the next few years, does the Company plan to incur any huge capital expenditure ("CAPEX")? If yes, how much is the quantum? This may affect the dividend policy of the Company.

Reply
Madam Chen replied that in the financial year 2017, the Company incurred approximately RM10 million on CAPEX, of which RM6 million was used to complete the purchase of land in Pulau Indah, RM2 million to RM3 million was incurred for the expansion of LPI and RM400,000 for the expansion of TMSB. For the financial year 2018, the major CAPEX will be incurred for the improvement of the accounting system costing a few hundred thousand ringgit, and purchase of machines for TMSB. The Company estimated the total CAPEX to be incurred will not exceed RM2

million. In the financial year 2019, the Company may begin the construction of warehouse in Pulau Indah. However, the cost of construction had not been determined yet and is dependent on the size of the warehouse to be built.

(viii) Does the Company have a formal dividend policy?

Reply
Mr Tang replied in the negative. However, looking at the record of the dividend payout by the Company, it is not less than 40% of the profit after tax.

Mr Wong Wai Keong, a shareholder, raised the following questions:

(i) Outlook of the Company in financial year 2018 versus the performance of financial year 2017.

Reply
Mr Tang opined that the financial year 2018 would be a better year than the financial year 2017. The results of the first quarter of the financial year 2018 were better than the last quarter of financial year 2017. The shareholders were advised to take note that the crude oil price had increased from USD62 per barrel to USD69 per barrel. The uncertainty in raw material price and political issues around the world were affecting the market. The increase in crude oil price had affected the Company as the Company sources raw materials from the downstream of the oil industry. Mr Tang remained positive on the performance in terms of budget and felt the financial year 2018 would be better than the financial year 2017. Even so, any of the aforesaid factors could affect his forecast.

(ii) What are the favourable and unfavourable factors that would be faced by the Company in financial year 2018?

Reply
Mr Tang replied as follows: One of the favourable factors faced by the Company is the extra capacity of the plants of TMSB and LPI. The Company is also moving towards efficiency in managing the business. The market still controls the overall condition determining the performance of the Company. The Company mainly depends on the Malaysian market. Overall, the Purchasing Managers' Index (“PMI”) of the first quarter of the financial year 2018 is below 50, which indicates that the market is contracting. The US, China, Europe and Japan are the few regions that are expanding. Malaysia is one of the regions experiencing contraction. The Company depends a lot on the customers in the manufacturing sector and the Company cannot supply more to its customers if they do not expand their business. Based on customers’ feedback, the market is considered soft. Therefore, the Company expands and export overseas. In view that LPI has a big market share in the Malaysian market, the Company is focusing on export.

Mr Tang reminded the shareholders that the export market exposed the Company to competition from all over the world. The Company may not able to secure a good margin even if the Company is able to sell in the foreign market. Nevertheless, Mr Tang remained positive on financial year 2018.

Mr Chua Song Yun, a shareholder, raised the following questions:

(i) Madam Chen mentioned about the decline in 2% quantity sold in the financial year 2017. Is the industry also experiencing the same decliine? Is it because the whole industry is shrinking because the PMI was below 50, as mentioned by Mr Tang? Can the Board of Directors comment on this? Can Madam Chen share some information on this since the Company conducts analysis every time there is a drop in quantity?

Reply
Madam Chen replied that the decline in 2% quantity referred to the quantity sold in the financial year 2017 compared with the financial year 2016, whereas the PMI mentioned by Mr Tang referred to the first quarter of 2018. The decline in quantity last year was mainly due to the softer market overseas, especially in the manufacturing sector.

(ii) I have read some other analyst reports and noted that the Company supplied to the four biggest gloves maker companies. May I know whether the Company is supplying the chemical to make the latex gloves or synthetic gloves? May I also know whether the gloves maker companies only sourced the chemical from the Company or many suppliers?

Reply
Mr Tang replied as follows:

The Company has been working with the gloves industry since we commenced business as the Company was the first supplier to introduce nitrile latex to the industry, whereas Malaysia started with the NR ("Natural Rubber") latex. Currently, nitrile latex is the raw material widely used in the industry, with more than 50% of the total gloves production. Unfortunately, the Company's principal's capacity for nitrile latex is fully utilised. However, the Company does not only supply latex but a full range of chemical. The Company acquired TMSB as TMSB produces dispersion for the glove industry. After the acquisition of TMSB, the Company is now one of the key suppliers in the gloves industry. The glove manufacturer buy from other suppliers as well.

Mr Tan Kian Seong, a shareholder, raised the following question:

(i) Does the Company have any plan to venture into China market?

Reply
Mr Tang replied as follows:

China market is very big; however, it is also very competitive as whatever the Company can do, China suppliers can do even better. As such, the Company currently has no plan to venture into China but the Company does have suppliers from China. The Company's main focus is ASEAN countries.

Mr Chin Yee Choong, a shareholder, raised the following question:

(i) The Company's borrowing as at the financial year 2016 is RM55 million and as at first quarter of the financial year 2018, it has increased to RM91 million. Can Madam Chen explain whether it will affect the Company's dividend policy?

Reply
Madam Chen replied as follows:

Bank borrowings depend on the requirement of the Company at that point of time. Overall, the Company manages its borrowing within one month's sales. Although the Company has cash, the Company is still required to utilise some of the bank borrowings as the Company needs to maintain the bank facility. If the Company does not use the facility, the bank may withdraw it and the Company may have to incur cost on stamp duty to reinstate the facility. The dividend to be paid out by the Company depends on the profitability and cash flow of the Company. Overall, bank borrowings will not affect the dividend policy of the Company.

The Company does not have any long-term borrowings.

Mr Gan Hwa Soon, a shareholder, raised the following question:

(i) What is the reason for the change in the Company's external auditors from Messrs DFK & Co. to Messrs BDO?

Reply
Madam Chen replied that Messrs DFK & Co. had been the external auditor for the Company since the Company was incorporated in 1984. In the Board of Directors' opinion, in order for the Company to promote proper corporate governance, the Board felt it was proper to appoint another external auditor. Last year, a shareholder suggested the Board of Directors consider changing the external auditor.

Mr Tang Hong Kee, a shareholder, raised the following question:

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 26th Annual General Meeting of the Company held on 7 May 2018**

(i) What is the difference between the re-election of Director and retention of Director as an Independent Non-Executive Director?

Reply

Ms Wong Wai Foong, the Company Secretary of the Company, replied as follows:

The re-election of Directors is made pursuant to Article 77 of the Constitution of the Company, where one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to one-third shall retire from office, or at least once in each three years. Should the motions be carried, Mr Au Chun Choong and Mr Chan Wan Siew will continue to serve as the Directors of the Company.

The resolutions for the retention of Directors as the Independent Non-Executive Directors are proposed to retain all the Independent Non-Executive Directors who have served the Company for cumulative terms of more than nine years. The resolutions are best practice as recommended under the Malaysian Code on Corporate Governance 2017.

The resolution for the re-election of Director pertains to whether the Director may continue to serve as the Director of the Company whereas the resolution for the retention of Director as the Independent Non-Executive Director pertains to whether the Director of the Company is allowed to continue serve the Company as an Independent Director.