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-SEVENTH ANNUAL GENERAL MEETING OF THE COMPANY HELD ON FRIDAY, 3 MAY 2019

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

(i) "Although the revenue of the Company increased from RM806 million to RM814 million, kindly explain the critical factors which will directly influence the Company's performance, based on the macro overview and results that the Company achieved in the financial year 2018. The gross profit declined from RM86 million to RM81 million and the profit after tax also decreased from RM40 million to RM37 million. Kindly advise whether this is due to foreign exchange ("forex") fluctuation, cost pressure or margin squeeze?"

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

"The main reason is the overall margin squeeze in the Company's Unsaturated Polyester Resin ("UPR") from Luxchem Polymer Industries Sdn. Bhd. ("LPI") in the manufacturing segment".

Mr Tang Ying See ("Mr Tang"), the Managing Director/Chief Executive Officer of the Company, further explained that the Company was unable to control the selling price as it was totally dependent on the market forces. When the price was low, the Company still had to maintain the market share, especially for the export market.

Furthermore, the Company maintained its turnover to cushion the effect of cost increase. Although 2018 was a challenging year due to the variable factors, i.e. change of government and change from Goods and Services Tax to Sales and Services Tax, the performance of the Company was commendable.

(ii) The second question was related to the capacity utilisation of Transform Master Sdn. Bhd. ("TMSB") as well as LPI. "What is the prospect in reducing the cost of products provided that there is a market acceptance? The Company has export potential and is actively exporting approximately 80% of its products to South-east Asian countries, New Zealand, Australia, Bangladesh, Japan and British Virgin Islands. Is there any potential for the Company to export beyond these countries?"

Reply
Mr Tang replied as follows:

"LPI almost fully utilised its capacity, therefore it increased its capacity in Q2 2018 to expand to export market. The Company's utilisation is now at 60% to 70% after capacity expansion.

As for TMSB, the production capacity was at about 400 metric tons per month at the time of the acquisition, but it increased to 1,000 metric tons per month in 2018. However, the Company is actively expanding its capacity and currently, the Company is focusing on the export market. In fact, the current direction of the Company is to target the South-east Asian countries. This is mainly because the population of the Malaysian market is relatively small for the Company to expand its business. Although the export market is more competitive than the local market, it has a wide market and this will be the Company's direction to further grow the business."

(iii) The third question was related to the competitive environment. "What actions will the Company take in 2019?"

<u>Reply</u>
Mr Tang replied as follows:

"The Company's business will always be competitive. To cushion this effect, the Company is focusing on the key core business. The Company's direction is to ensure that it will be the key supplier in every industry that the Company enters into. For example, in the glove industry, the Company sells almost the entire range of products.

In relation to composite industry, LPI has the whole range of products for UPR. The Company has the highest market share for its existing products and has become one of the key suppliers in the ASEAN market. However, the Company will always have to compete with the local and regional big players. The Company's strategy is to work closely with the customers to be the key supplier in order to stay competitive in the market."

(iv) The last question was related to the competition in the existing market. "Who are the main competitors and which company is competing directly in this field? (without mentioning the name of the competitors)."

<u>Reply</u>
Mr Tang replied that the competitive market was covered in question (iii) above.

(v) "Since TMSB is a newly acquired entity, what is the similarity of the products between TMSB and LPI?"

<u>Reply</u>
Mr Tang replied as follows:

"We acquired TMSB in 2016. TMSB and LPI both specialise in different products. TMSB services the glove industries and its products are emulsion based, while LPI's products are more solvent based."

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 27th Annual General Meeting of the Company held on 3 May 2019**

Mr Leo Ann Puat ("Mr Leo"), a shareholder, raised the following questions:

(i) "Please clarify the challenging environment as stated in the Management and Discussion Analysis of the Annual Report 2018. What is the outlook of 2019 compared with 2018, assuming everything remains status quo."

Reply
Mr Tang replied as follows:

"The Company started 34 years ago and every year since then has been challenging. It depends on how the Company positions itself. The main key factor is to work closely with the Company's customers so that the Company becomes the preferred supplier. By having good business relations, customers will purchase the Company's products by considering the variable factors. Overall, the Company is trying to improve its competitiveness in the aspect of service, products, customer relationships, and improved balance sheet. The Company is actively improving and will continue to face challenges."

(ii) "With reference to the previous question, the Company is expanding. Kindly advise what will be the capacity utilisation of the Company. Will 2019 be better than 2018, assuming everything remains status quo?"

Reply
Mr Tang replied as follows:

"In first quarter of 2019, the raw material price dropped. The Company is expecting to earn additional revenue as sales quantity increased. Unfortunately, the Company only achieved a marginal increase in revenue due to the decline in raw material price.

The Company is continuously increasing its capacity for expansion. For instance, LPI has 40,000 metric tons in total with spare capacity to cater for export market. As a result, if the Company does not expand its capacity, the Company will be unable to fulfil the customers' needs when there is a demand. LPI is currently utilising about 65% to 70% of its capacity and there is a room for growth. As for TMSB, it is only able to produce 400 metric tons per month at the time of acquisition, but now, TMSB is able to generate 1,000 metric tons per month".

Mr Lim Pin Yeong, a shareholder, raised the following questions:

(i) "Why are the Directors' profiles omitted in the Annual Report 2018?"

Reply
Madam Chen replied as follows:

"The Directors' profiles were uploaded to the Company's website this year. The Company notes the request to include the Directors' profile in future years' Annual Report."

(ii) "What is the percentage of the sales in gloves, chemical, trading in the segment by industry?"

Reply
Madam Chen replied as follows:

"The Company only discloses the percentage of the sales according to manufacturing, trading or geographical segment, and not according to the industries. In terms of the percentage of revenue, all the three divisions, i.e. Polyvinyl Chloride ("PVC"), Latex and Fibreglass Reinforced Plastic ("FRP"), contributed 30% to the total revenue of the Company on a group basis, while rubber division contributed about 10% to the total revenue in 2018."

(iii) (a) "What is the reason for categorising the intangible assets of RM4 million as stated on page 47 of the 2018 Annual Report and what is the corresponding entries?" (b) "The classification of assets – right of use of assets according to the note 10 of the Audited Financial Statements ("AFS") is leasehold property and equipment. Can you elaborate on that?" (c) "The inventories and the trade receivables have increased substantially. Referring to Note 13 on page 75 of the 2018 Annual Report, the inventory comprised raw material and finished products, including trading items purchased from third party. Can you enlighten the shareholders why there is an increase by RM5 million?" (d) As disclosed in the Note 14 of the 2018 Annual Report, trade receivable increased RM7 million. Past due more than 120 days is RM3 million but only RM2.5 million was impaired. How much was the recovery?" (e) "The borrowings have also increased as per note 18 of the AFS. Kindly explain what sort of trade financing is secured by the Company from financial institutions?" (f) "Interest cost and interest income have also increased at the same time. Please advise the percentage of interest cost of the Company and rate of interest received by the Company from its placement."

Reply
Madam Chen replied as follows:

"The intangible asset was RM4.48 million in 2018. Out of the RM4.8 million, RM4 million was from brand equity and the corresponding entry credit bank. During 2018, we purchased one of the brand names, which has been long established in the UPR market.

The Company purchased the entire business instead of the company, which included the UPR brand, technical know-how and the customers. The Company acquired the right to use the brand name. The Company paid RM4 million for this acquisition and an impairment assessment for losses will be carried out every year. The auditors have confirmed the value remained at RM4 million in 2018."

Mr Tang highlighted that the Company acquired this brand because the seller who wanted to phase out the UPR market to focus on other businesses had approached the Company. The Board of Directors could not disclose the name of the seller as it is a trade secret.

Madam Chen responded that right-of-use assets was reported according to the new Malaysian Financial Reporting Standards ("MFRS") 16 in the AFS. Right-of-use assets recognises the right of use of assets by the lessee which meets the criteria of MFRS 16. A lessee recognises right-of-use assets, lease liabilities under current and non-current liabilities, amortisation of the right-of-use asset and interest on the lease liability. Rental would drop and being replaced by amortisation of right-of-use assets and interest on lease liabilities.

Madam Chen informed that the inventories increased from RM79 million to RM84 million in 2018. Overall, inventory holding is 1.24 months. Management only held one month's stocks. Inventories depended on what the Company required at the point in time. As at 31 March 2019, the inventories of the Group were worth RM69 million. The inventories' value depended on the composition of stock and the raw material prices.

The trade and other receivables had increased from RM138 million to RM145 million. As at 31 March 2019, the trade receivables were at RM144 million. On average, the trade receivables turnover of the Company were only 2.4 months. Overall, the impairment on trade receivables was RM2.5 million. From 2008 to 2018, the Company had made a net provision of 0.05% on total revenue.

Madam Chen informed that borrowings, which comprised trade financing as at 31 December 2018, was RM86 million as compared with 2017, which was RM77 million. As at 31 March 2019, the borrowing was at RM82 million. The Company had been monitoring the borrowings closely to ensure that it did not over-finance. All the Company's borrowings were for the short term and the Company was using banker's acceptance for local operations. Borrowings were essential for the daily operations and the repayment period was three months.

Based on the Company's group basis, the weighted average effective interest rates for the borrowing trade financing was 5.96%. This was disclosed in the 2018 Annual Report of the Company.

The increase in interest expenses was mainly derived from PT Luxchem Indonesia. This was mainly because PT Luxchem Indonesia had been growing and the Company's capital was undercapitalised. Hence, the Company relied on borrowings.

(iv) "Why are Chow Cheng Moey and Lim Kuang Sia disclosed under the list of substantial shareholders' shareholdings on page 109 of the Annual Report 2018? Are they related to any of the Board members?"

<u>Reply</u>

Ms Wong Wai Foong, the Company Secretary of the Company, explained that the disclosure of the list of the substantial shareholders' shareholdings was as per the requirements set out in the Companies Act 2016. Pursuant to Section 59(11)(c) of the Companies Act 2016, a reference to a director shall include the spouse of a director who is not a director of the company and a child of a director, including adopted child or stepchild who is not a director of the company, and the interest of the spouse or child shall be treated as the interest of the director in the shares or debentures of the company after the relevant facts have come to the directors' knowledge. Hence, there was a deemed interested by virtue of the shareholdings held by her spouse, Lim Kuang Sia, pursuant to Section 59(11)(c) of the Companies Act 2016. It had to be transparent and disclosed in the list of substantial shareholders' shareholdings.

(v) "Even though the Company has a good cash flow, why does the Company keep borrowing when the interest is very high?"

Reply
Madam Chen replied as follows:

"The Company intended to keep the cash for emergency use and for the purpose of corporate exercises when needed. The Company utilises banking facilities to maintain good relationship with the bankers. In view that the Company is dealing with international business, if the Company loses the trade lines, the Company will have difficulty getting assistance from the bankers when needed."

Mr Lee Eng Shan, a shareholder, raised the following questions:

(i) "Kindly provide the reason for the poor performance of Luxchem Vietnam Company Limited in the financial year 2018."

Reply
Mr Tang replied as follows:

"The Company mainly exports its UPR products to Vietnam and the Company is constantly faced with competition. In 2018, the market demand in certain industries in Vietnam was very poor. Nevertheless, the Company still ships consistently to Vietnam monthly."

(ii) "What are the drivers for the Company in Cambodia? Are they sustainable?"

Reply
Mr Tang replied as follows:

"The market in Cambodia is very small. However, the Company is still selling the UPR products there. Cambodia and Vietnam are neighbouring countries. The growth potential in Cambodia is limited for now because Cambodia's needs are construction-based while the Company's products are mainly in the industrial line."

(iii) "What achievement or specific targets will the Company share with the shareholders in the next Annual General Meeting ("AGM") in 2020?" In the longer term, what are the Company's future goals or are there any new opportunities overseas? Based on the list of top 30 shareholders of the Company, the shareholders are mainly individuals. Are there any institutional shareholders?"

Reply
Mr Tang replied as follows:

"The Company is unable to predict the market movements due to variable uncertainties. Overall, the Company is not badly affected by market sentiments because the Company is able to maintain good relationship with the customers. As long as the customers continue to operate their business and maintain production, the Company will not be badly affected by the market sentiments.

At this moment, the Company's goal driver is to focus on export market. The Company has two countries for further growth, i.e. Indonesia and Vietnam. With these two countries, the Company can use the existing products and business model to expand to their markets. This will be the growth factors for the Company. Unfortunately, Vietnam and Indonesia are full of challenges. The Company will monitor the market conditions closely and improve its operations and efficiencies in order to maintain the stability of the business."

Madam Chen further explained the investor relationships in the Company's shareholders' profile, whereby the number of individual shareholders is larger than the institutional shareholders in the Company. Two years ago, the Company had engaged two investment houses to cover them every quarter, ie. RHB and AmBank under the Bursa Malaysia Securities Berhad's Midcap Scheme. For the past two years, after each quarterly meeting and the announcement on quarterly results of the Company to Bursa Securities, the Company would meet these two investment houses. They will prepare their analysis report on the Company accordingly. In addition, an investor briefing was held on 14 February 2018. The Company will have an investor briefing in 2019.

Mr Cheah Seng Chye ("Mr Cheah"), a shareholder, raised the following questions:

(i) "Is the Company's existing business plan similar to China Sunshine Chemical's? China Sunshine Chemical reported that they lack the capacity to supply to China, so why is the Company not venturing into the China market?"

Reply
Mr Tang replied as follows:

"There are many reasons for a company to lack the capacity. China market is very big but its government is very strict on environment control. The Company's existing business plan is not similar to China Sunshine Chemical's."

(ii) "Pertaining to the share price of the Company, the value of shares will not appreciate if the Company is not actively collaborating with investment bankers and other corporate investors."

Reply
Mr Tang replied as follows:

"Generally, the Company is concentrating on its business operations. However, the Board of Directors notes the request to actively liaise with corporate investors in improving the value of the share price of the Company."

Mr Wan, a shareholder, raised the following questions:

(i) "How many Independent Non-Executive Directors have each served for a cumulative term of more than nine years in the Company as the new Malaysian Code of Corporate Governance ("MCCG") says that the tenure of independent directors should not exceed a cumulative term limit of nine years? Kindly explain what will be the next course of action to be taken by the Company."

Reply
Madam Chen replied as follows:

"All the Independent Non-Executive Directors of the Company have been on the board since 2008. Their tenure as independent director has exceeded a cumulative term limit of nine years. However, upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director. If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. The Company notes the MCCG is a set of corporate governance best practices for companies to adopt to enhance their accountability, transparency and sustainability.

However, the Nominating Committee ("NC") has recently reviewed the curriculum vitae of a proposed candidate and the NC will continue to screen more candidates for consideration before deciding on the suitable candidate to ensure good governance in the selection process."

Mr Cheah, a shareholder, raised the following question:

(i) "How aggressive is the share buy-back of the Company?"

Reply
Madam Chen replied as follows:

"The Company does not have any experience in share buy-back exercise and this is also the first time the Company is seeking approval from the shareholders.

The Company will not have an aggressive share buy-back as there are two limitations. First, the maximum aggregate number of the Company's shares which may be purchased by the Company should not exceed 10% of the total number of issued shares of the Company in compliance with Paragraph 12.09 of the Main Market Listing Requirements of Bursa Securities. Secondly, the maximum fund to be allocated for share buy-back exercise should not exceed the aggregate balance standing in the retained profits of the Company. The retained profit of the Company based on the latest AFS as at 31 December 2018 is RM1.8 million."

To Mr Cheah's suggestion to consider getting corporate investors as the Company's shareholder, Madam Chen replied that the Company will take note of his suggestion.