

LUXCHEM CORPORATION BERHAD
REGISTRATION NO. 199101014102 (224414-D)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTIETH ANNUAL GENERAL MEETING (“30TH AGM”) OF THE COMPANY HELD ON THURSDAY, 26 MAY 2022 AT 10.00 A.M.

1. Will any door gift/e-voucher be given to the shareholders participating in this meeting?

Reply: Madam Chen Moi Kew, the Executive Director/Chief Financial Officer

The Company does not give door gifts or any kind of vouchers to shareholders at this point of time. The Company believes that giving dividends regularly is the most appropriate way of rewarding our shareholders.

2. Is the Management willing to consider a fixed quarterly dividend payout effective from FY2022?

Reply: Madam Chen Moi Kew

Our dividend payment depends on our profitability, cash flow and projection for capital commitment. Therefore, we do not determine the frequency, the date of payment, and the dividend rate.

3. In the event the Company requires additional funding, please do consider Rights Issue and/or Dividend Reinvestment Plan and/or Bonus Warrant.

Reply: Madam Chen Moi Kew

Yes, when we require additional funding, we will consider the various alternatives available.

4. What is the future outlook of the Company?

Reply: Madam Chen Moi Kew

The ongoing Russian-Ukraine conflict and lockdown in China’s major cities have impacted the global supply chain. The rising fuel, raw material prices and shipping costs will lead to an inflationary environment. The weakening of the MYR will also affect our local and export markets.

However, we are confident that we will continue to perform well in FYE 2022. We have completed our acquisition of Lexis Group of Companies in August 2021, and this will contribute positively to the Company.

5. Is the Management considering more mergers and acquisitions that are similar to Lexis?

Reply: Mr Tang Ying See, the Managing Director/Chief Executive Officer

We are always evaluating businesses for mergers and acquisitions to see if they will fit into our business. On top of that, we must also ensure that all the mergers and acquisitions have the synergistic effect to boost the Company’s revenue and profits.

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6. What are the plan and performance for the new acquisition of Lexis Chemical Sdn Bhd (“Lexis Chemical”)?

Reply: Madam Chen Moi Kew

As we completed the acquisition of Lexis Chemical in August 2021, our consolidation for 2021 only included 4 months of Lexis’s operations. Lexis Chemical has been performing well and contributing positively.

Reply: Mr Tang Ying See

Lexis Chemical is still expanding, and we have to maximise its production capacity. For the time being, we shall just monitor Lexis’s expansion plans and see how it will fit into the Group’s operations.

7. (a) How has the weakening of MYR over USD impacted the business? Is it favourable for exports denominated in USD?
(b) Whatever the case may be, in terms of purchase in USD, the impact will be adverse.
(c) In net positive, what will be the case?
(d) Did the Company practise hedging to reduce the impact to the Company’s Profit & Loss position?

Reply: Madam Chen Moi Kew

- (a) Yes, we do have exports, which contribute about 30% to the Group’s total revenue. Our exports are mainly denominated in USD. The strengthening of the USD will boost the revenue of the Company. In general, this should have a favorable effect on the Company.
- (b) It depends because we have exports in USD and we can do natural hedging to meet the requirement of our purchasers. If there’s any lack of USD for those subsidiaries which are mainly selling locally, we can hedge accordingly or pass down the cost to our customers due to the higher foreign exchange rates.
- (c) Based on our past experience, we will try our best to hedge or pass the cost to our customers. We do not unnecessarily take advantage of the higher USD but will ensure our profit margins are maintained.
- (d) Yes, we do practise hedging to reduce the impact of the foreign exchange to our Profit & Loss Account. We either hedge through the purchase or sales of USD via banks or hedge naturally.

8. Please give a brief review on the industry presently.

Reply: Madam Chen Moi Kew

We are operating in a few major industries, i.e. gloves industry, FRP industry, PVC industry and rubber industry. In the past two years, there has been a boom in the gloves industry due to the Covid-19 pandemic and therefore, it has contributed 40% to 50% to the total revenue of the Company.

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Reply: Mr Tang Ying See

In respect of the industry outlook, we can only try to manage the Company to be less affected by the external environment factors that can impact the performance of the Company. This is because the global economy could be heading for a recession due to the global uncertainties, compounded by the China lockdown, high US interest rate, Russia-Ukraine war, etc.

Luxchem is quite well balanced and diversified. Despite the slowdown in the gloves industry compared to the earlier phase of the Covid-19 pandemic, we still have other industries that can support our revenue. In general, the Company's performance still depends on the supply and demand and the state of the global economy (for example, inflationary pressures and price increase in raw materials). We are still watching closely on the market situation.

9. With the minimum wage of RM1,500.00 in place, what is the end effect to the Group?

Reply: Madam Chen Moi Kew

We have complied with the minimum wage of RM1,500.00. It has not affected our Group significantly because we do not have many staff who fall under this category.

10. What is the reason for acquiring 55% of Lexis instead of 100%? Can you explain in detail what expansion is going to happen for Lexis?

Reply: Madam Chen Moi Kew

The reason is for the remaining 45% of Lexis's shares are to be held by the founders of Lexis Group as we need their expertise to run the business.

We have increased our exports to China and currently, Lexis is trying to increase the market share in China as well as in other countries overseas. Lexis moved into a new factory in 2022, and they are in the midst of constructing a new warehouse next to their existing factory.

Reply: Mr Tang Ying See

Although the gloves industry is slowing down, Lexis and Transform Master Sdn Bhd (“TMSB”) also export to other countries, i.e. the Middle East, Africa, etc. The gloves industry will still be growing in the future as most of the countries are setting up their own production; the same goes for Lexis and TMSB. We expect the market to recover by the end of 2022.

Lexis is still expanding and is considering acquisitions of new production facilities which will increase productivity. With this, Lexis is expected to perform well in 2022.

11. Does the Group have a concrete plan (short-, mid-, and long term) to achieve net zero carbon emission by 2050?

Reply: Madam Chen Moi Kew

We do not have a concrete plan to achieve net zero carbon emission by 2050. We are taking steps towards reducing our carbon emission and moving towards that direction.

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As stated in our Annual Report 2021, our subsidiaries, especially the manufacturing sectors, are moving towards a more environmentally friendly and cost-saving method of production.

In addition, we will be implementing a solar energy plan for one of our subsidiaries in Malacca in 2022. Besides that, we have also converted from using diesel to natural gases.

12. Following up on the question on weakening of MYR, in terms of the matching of sales and purchase where you can hedge naturally, did the bank impose restrictions on immediate conversion from the USD to MYR? Or can the Company opt to maintain USD in the bank account? How about the Company’s loan that is denominated in foreign currency?

Reply: Madam Chen Moi Kew

There are no regulations or restrictions on the immediate conversion of USD to MYR. We can keep the USD and do the natural hedge as and when necessary. Also, the Company can opt to maintain the USD in the bank account.

As for the Company’s loan that is denominated in foreign currency, we do not have any loans in foreign currency. All our loans are denominated in MYR, except for loan for our subsidiary in Indonesia, i.e. PT. Luxchem Indonesia, but it is only a small portion and we will hedge accordingly if necessary.

13. How is the Company doing in its efforts to improve the ESG rating? How is the performance on the profit guarantee of RM60 million net profit over the next 3 years? Is it on track?

Reply: Madam Chen Moi Kew

As mentioned in the earlier similar question, the Company is taking steps towards reducing carbon emission and moving toward improving the ESG’s Ratings.

The vendors of Lexis have given a profit guarantee of RM60 million, which covers three financial periods from 2021 to 2023. As we have indicated earlier, Lexis Group is performing well and thus, we are finalising the amount to release the cash deposited and shares pledged towards the profit guarantee of RM60 million.

We are confident that Lexis will be able to achieve the profits in line with the Stakeholders Agreement and Share Sale Agreement with the vendors of Lexis.

14. With the current rising cost trend and poor performance of gloves sector, which customer segment can the profit margin be maintained?

Reply: Madam Chen Moi Kew

We are confident that we can maintain our performance for 2022 despite the slowdown in the gloves sector as the Company is also supported by other sectors, i.e. UPR sector, PVC sector and rubber sector.

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Reply: Mr Tang Ying See

In view of the high vaccination rates and improvement in the national Covid-19 situation, the growth in the gloves sector is slowing down but it remains resilient due to the demand-supply dynamics in the market. With the Covid-19 pandemic, the gloves industry boomed but there is an over-supply of gloves in the market for the time being due to many new entrants.

Based on our past experience, we expect the market to recover by the end of 2022 despite the price increase of raw materials for the gloves industry. We are in a good position and are confident of the gloves industry in the long term.

15. Recently, the Company appointed a new Chief Operating Officer (“COO”), Mr Tan Boon Chai. Can the Managing Director enlighten us on the rationale of his appointment and how he can contribute to the success of the Company?

Reply: Madam Chen Moi Kew

Yes, we have made an announcement with Bursa Malaysia Securities Berhad on the appointment of Mr Tan Boon Chai as the COO of the Company, together with the details of his qualifications and working experience. The Management believes that he is a good fit for our line of business and group of companies.

Reply: Mr Tang Ying See

This is part of our succession planning. With the current growth phase of the Company, we need fresh ideas and new blood to strengthen the operations of the Company. Mr Tan Boon Chai is very experienced. After our evaluation, we believe Mr Tan Boon Chai can contribute positively to the growth of Luxchem Group in the future. Although the Company is doing well, we still need to strengthen and reinforce our management team.

16. What is the Covid-19 impact to the business? And is the impact easing?

Reply: Madam Chen Moi Kew

The Covid-19 pandemic has impacted the Company positively. The results of the Company for the financial years 2021 and 2022 were good. The profits of the Company have increased, mainly due to the growing demand in resin market for gloves industry. Although there is a slowdown in the gloves industry, we have good coverage of the other industries. Overall, we are confident with our performance in 2022.

17. In view of the re-opening of the economy, what will the demand for UPR be like?

Reply: Madam Chen Moi Kew

With the re-opening of economy and international border, we can now export the UPR to Vietnam or Thailand.

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Reply: Mr Tang Ying See

We are still maintaining the performance for the 1st quarter despite the slowdown in the regional market, caused by the uncertainties such as inflation, financial crisis, shortage of materials and labour. As for the performance for the 2nd quarter, we are still monitoring the market environment.

18. For FY2021, exports sales contributed approximately 41% to Luxchem's revenue. Has the recent weakening of the MYR against the USD increased this percentage?

Reply: Madam Chen Moi Kew

It is possible that we can expect the USD to continue to strengthen. All our export sales are in USD and it will translate into much higher revenue for the Group. On top of that, we have a full year's accounting consolidation on the acquisition of Lexis Group in FY2022 as Lexis Group has higher export sales compared with their local sales. Therefore, our export sales will increase in terms of percentage.

19. What has the Management done to mitigate the current MYR-USD fluctuations and the spike in raw material price caused by the current Ukraine-Russia war?

Reply: Madam Chen Moi Kew

As mentioned earlier, the Company has a natural hedge or forward hedging to mitigate the foreign currency fluctuation. The recent Ukraine-Russia war has less impact on the raw material price. Nonetheless, the Company will continue to monitor and manage the situation.

20. The Group has a low profit margin, which is below 10%. What are the reasons for this? Is there any way to improve the profit margin?

Reply: Madam Chen Moi Kew

The Group's net profit margin was below 10%. However, it is growing because the Group is substantially involved in trading activities. Despite this, the contribution from the manufacturing sector has also increased in the recent years. There is not much value added in a trading environment at a profit margin of 4% to 5%. To achieve a better profit margin, the Company has to focus on value-added sectors by putting more effort in the manufacturing segment.

Over the years, we have increased our manufacturing's contribution. Firstly, we have Luxchem Polymer Industries Sdn Bhd. Thereafter, we acquired TMSB in 2016 and Lexis Group in 2021. With the manufacturing segment, it will contribute positively to our group and the overall profit margin.

Reply: Mr Tang Ying See

The profit margin for selling raw materials is lower if compared with the finished products. To have a fair comparison, investors should compare Luxchem with other players who are in the same industry. It is very likely that our profit margin is higher than the other players in the same industry.

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21. Will Luxchem organise online AGMs in the future as this will encourage more shareholders to attend the meeting? Please consider hybrid (face-to-face and virtual) AGM, especially for outstation shareholders.

Reply: Madam Chen Moi Kew

Yes, we will consider organising online or hybrid AGM in the future.

22. Will the shareholders be able to see you in person during the AGM in 2022?

Reply: Mr Tang Ying See

This is in line with Principle C(II) and Guidance 13.3 of the Malaysian Code on Corporate Governance, where companies are to consider leveraging technology to conduct meetings and to facilitate greater shareholder’s participation.

It also depends on the Covid-19 situation. We may organise a physical or hybrid AGM when Covid-19 becomes endemic.

23. For trading business, did the Company give any credit terms to customers? If so, is there any risk of default payment or doubtful debts? How does the Company mitigate the credit risk?

Reply: Madam Chen Moi Kew

Yes, we do give credit terms to our customers; however, some of our sales are on cash basis. The credit terms to be given depend on who the customers are and what products we are dealing with. The credit period ranges from 30 days to 120 days.

There is always a risk of default payment or doubtful debts when credit terms are given to customers.

In the Annual Report 2021, we have a net recovery of about RM3 million on doubtful debts, which was a positive sign. The Company is managing the debts well, and the same goes for the credit policies granted to our customers. The recovery of doubtful debts is more than the provision made in 2021.

We have strong internal controls. Before giving credit to a customer, we will evaluate the customers background by conducting the necessary searches on the company and the credit risks. In addition, we also have regular meetings on debtors aging and will discuss the same in the monthly management meeting.

Overall, our provision for impairment is very low, and we have a net recovery in 2021.

24. There was 88215% increase of revenue from China amounting to RM24.987 million in FY2021 in trading segment.

- (a) What is the reason for this huge increase in revenue?
(b) Will the contribution from China be further increased in FY2022?

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Reply: Madam Chen Moi Kew

- (a) The huge increase in China under segment reporting from 2020 to 2021 was mainly attributed to Lexis because Lexis does a lot of exports to China.
- (b) The contribution from China will further increase in the financial year ending 2022 after consolidating the full financial year of Lexis Group. Essentially, the Company will take necessary steps to increase the market share in China.

25. Which type of AGM is easier and cheaper to organise? I prefer the Board to save more so as to distribute dividend to shareholders.

Reply: Madam Chen Moi Kew

There are pros and cons for conducting meetings in different manner (e.g. physical, hybrid or online meeting). However, it depends on the regulation and situation at each point of time. The Management and the Board will also consider the cost and benefit when determining the manner of conducting an AGM. Nevertheless, the Company will strive to improve its performance, and thus increase the Company's profit in order to distribute dividend to shareholders.

Reply: Mr Tang Ying See

The distribution of dividend is impacted by the Company's overall performance and external factors such as the Covid-19 pandemic, instead of the cost of holding AGM.

26. There is an increase of revenue from China market.

- (a) Is it contributed by Lexis?
- (b) What is the potential of China market? And how are you going to compete with the locals?

Reply: Madam Chen Moi Kew

- (a) Yes, it was contributed by Lexis.

Reply: Mr Tang Ying See

- (b) In light of the huge population of 1.4 billion and improved standard of living in China, the citizens have become more health conscious and gloves will become an essential product in the health industry. The China market is growing. I can foresee the China market to be huge.

It is good that Lexis has been penetrating and expanding its market share in China. Overall, Malaysia's has its competitive advantage on production technology and contributing about 60% of the global rubber gloves market. Thus, Lexis can focus on improving its research and development or work with local manufacturers to compete in the China market.

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27. In FRP product, especially UPR, does Luxchem plan to develop more special grade, such as high-performance resin (Flame Retardant and high temperature resistant resin)?

Reply: Mr Tang Ying See

Luxchem Group has already been producing high-performance resin (Flame Retardant and high temperature resistant resin). In fact, 30% of our products are specialty products and 70% are commodity items. We have been producing almost the full range of resin to target different industries.

28. I understand UPR supply has been quite tight recently. Is there any plan to invest in a new plant for UPR production?

Reply: Mr Tang Ying See

The whole world is full of uncertainties due to inflation, conflict between Ukraine and Russia, shortage of materials, market slowdown, etc. at the moment. Hence, the Company is observing the situation while looking for business opportunities.

29. What is the average rate of the UPR manufacturing capacity, given that the sector had achieved about 65% in the financial year ended 2021? Is there a possibility to go higher to 80% or more?

Reply: Madam Chen Moi Kew

The utilisation for the manufacturing sector was about 65% in the financial year ended 2021. This was mainly due to the Covid-19 pandemic and lockdown, when the Company was not allowed to operate. However, the average and ideal manufacturing utilisation rate should be about 90%.