

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

SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTY-FIRST ANNUAL GENERAL MEETING (“31ST AGM”) OF THE COMPANY HELD ON THURSDAY, 25 MAY 2023 AT 10.00 A.M.

1. Could you please explain why Luxchem does not provide door gifts or vouchers to participants of the Annual General Meeting (“**AGM**”)? Many companies offer such tokens of appreciation, even when the AGM is held remotely via video webinar.

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

The Board would like to answer to all the pre-meeting and live questions regarding Luxchem’s AGM door gift policy. The Company does not give door gifts/vouchers to shareholders neither attending nor not attending AGM at this point of time. The Company believes that giving dividends regularly is the most appropriate way to appreciate and reward our shareholders.

2. Transform Master Sdn. Bhd. (“**TMSB**”)’s production capacity for FYE 2021 was 27,600 MT, but for FYE 2022, it decreased to 18,000 MT. What is the reason for this significant reduction in production capacity? Is the Company planning to phase out this business?

Reply: Madam Chen Moi Kew

Our production capacity is based on the number of machines that we use, the number of shifts we operate and number of workers we have. TMSB has been operating for more than 10 years. The slowdown of the glove industry in 2022 gave us the opportunity to upgrade our machines. Therefore, in 2022, we refurbished some older machines and replaced some older machines with new ones. During this period, we operated with fewer machines, resulting in lower production capacity.

No, we are not planning to phase out this business. We are upgrading our plant and improving our processes to become more efficient and be ready for the recovery of the glove industry.

3. With reference to page 19 of the Annual Report 2022, the Group’s revenue for FY22 decreased by RM121.51 million or 13.15% due to lower volumes from the trading segment. Please explain the reasons for the lower volumes from the trading segment.

Reply: Madam Chen Moi Kew

The lower volume was mainly due to the lower sales in the glove industry. We are a supplier of nitrile latex and chemicals to glove manufacturers. In 2022, there was a severe supply-demand imbalance in the glove industry. There were excess supply, capacity and inventories held by traders and users. This resulted in the lower demand for our latex chemicals.

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4. With reference to page 20 of the Annual Report 2022, the revenue from manufacturing segment increased from previous year. However, profit for the financial year for this segment decreased from RM30 million to RM27 million. Please explain.

Reply: Madam Chen Moi Kew

Our manufacturing sales (before inter-segment revenue) increased to RM412.67million or 10.89% in FYE 2022 (FYE 2021: RM372.13million). However, profit after tax reduced to RM27.50 million or 11.44% (FYE 2021: RM31.05m). Profit margin of the manufacturing segment in FYE 2022 was consistent with FYE 2021. The reduction in profit after tax was due to the amortisation of Intangible Asset.

Please refer to Note 8 in page 84 of the Annual Report 2022 for the explanation. The amortisation charge (Intangible Asset – Trade formula) for FYE 2022 was RM6.14 million (FYE 2021: RM2.05million). For more information on Intangible Asset – Trade formula, please refer to last paragraph of Note 8b on page 85 of the Annual Report 2022.

5. With reference to the List of Top 30 Holders as at 8 March 2023 in page 129 of the Annual Report 2022, the number of shares held by Mr Chuah Kim Piew and Mr Lee Juinn Yong (Directors of Lexis) had increased significantly compared with the Annual Report 2021. Is this part of the deal to acquire Lexis (shares being given to them) or did both of them acquire Luxchem’s shares from the open market?

Reply: Madam Chen Moi Kew

The total number of shares held by Mr Chuah Kim Piew and Mr Lee Juinn Yong as per the Annual Report 2022 is the same as that in the Annual Report 2021.

For the Annual Report 2021, some of their shares were held under RHB Nominees (Tempatan) Sdn. Bhd.

Please refer to items 4 and 5 of the List of Top 30 Holders as at 25 February 2022 on page 127 of the Annual Report 2021.

6. With reference to page 71 of the Annual Report 2022, what were the reasons for the significant increase in operating cash flow from operating activities (from previous year of RM40 million to RM122 million), which was around 300% increase from the previous financial year?

Reply: Madam Chen Moi Kew

The net cash from/(used in) operating activities in FYE 2022 was RM122.21million (FYE 2021: RM39.38million).

Despite a lower Profit Before Tax of RM68.62million in FYE 2022 (FYE 2021: RM98.39million), the Group achieved higher net cash from operating activities.

This increase was due to the decrease in inventories (RM60.49million) and decrease in trade and other receivables (RM56.38million). Please note that when current assets decrease, there is cash inflow.

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7. With reference to page 71 of the Annual Report 2022, please explain the capital expenditure (CAPEX) investment of RM40 million? Is it a one-off expense for the new building/office? In future, will CAPEX be maintained at this level/amount?

Reply: Madam Chen Moi Kew

Please refer to page 71 of the Annual Report 2022 (Statements of Cash flows). The purchase of property, plant and equipment in FYE 2022 was RM40.43million.

The major Capex in FYE 2022 was the acquisition of a building at Jaya One by Luxchem Trading Sdn. Bhd. for RM19.88 million and the announcement was made to Bursa Securities Malaysia Berhad (“**Bursa Securities**”) on 20 April 2022. In addition, Lexis had spent about RM16 million to construct its own warehouse. With reference to the Q1’2023 financial results announced to Bursa Securities on 27 April 2023, the capital commitments were approximately RM11 million, hence, the Company expected the CAPEX in 2023 will not be as high as in 2022.

8. Currently, there is a surplus in the global glove market, with many glove manufacturers operating below their optimum capacity. As one of the suppliers to glove manufacturers, please provide an update on the market trend and the performance of this business segment in the Luxchem Group.

Reply: Madam Chen Moi Kew

About 30% to 40% of the revenue was derived from the glove segment. Currently, the average selling price of glove is low due to overcapacity and the glove industry is facing stiff competition from China’s glove makers. The Company had done an analysis on the local and overseas glove markets and noted that many of the local glove manufacturers and some of China’s glove makers suffered losses in their Q1’2023 financial results.

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

We believe that the global glove industry has reached bottom and expects the average selling price of gloves to increase due to the losses suffered by the key players in the market. We expect the glove industry to recover at the end of the year after the downturn in the past 2 years.

9. In addition to the glove industry, what is the outlook for 2023 compared with 2022?

Reply: Madam Chen Moi Kew

With reference to the Q1’2023 financial results of the Company announced to Bursa Securities, the revenue for the current quarter had decreased about 36% from the preceding year’s corresponding quarter ended 31 March 2022. Further, the profit after tax of the Company had decreased about 51%, from RM18.94 million in the preceding year’s corresponding quarter ended 31 March 2022 to RM9.22 million in the current quarter ended 31 March 2023.

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Although the revenue for Q1'2023 was marginally lower than the preceding quarter 31 December 2022, the Company recorded higher profit after tax. Overall, the Company is maintaining a cautious outlook on the chemical industrial market, particularly in the glove industry and construction sector, in 2023. We anticipate on-going sluggishness in the market for the next few months and expect a recovery for the glove industry in Q4'2023. The Company aims to maintain the financial performance at pre-pandemic level.

10. As Lexis is involved intensively in the glove industry that is on a down trend, how is the performance of Lexis Companies in terms of revenue and profit after tax after the acquisition?

Reply: Madam Chen Moi Kew

Lexis Companies performed well in 2022; however, the Company has achieved lower revenue and profit after tax to-date due to the down trend in the glove industry. Nonetheless, the Company expects a recovery in the glove industry in Q4'2023.

11. The utilisation rate for Luxchem Polymer Industries Sdn. Bhd. was 65% in 2022. What is the expectation in 2023?

Reply: Madam Chen Moi Kew

We expect to maintain the utilisation rate of Luxchem Polymer Industries Sdn. Bhd. at 60% to 70% in 2023.

12. What is Luxchem's strategy to increase sales in the trading segment in 2023?

Reply: Madam Chen Moi Kew

There are the latex, fiberglass reinforced plastic, PVC, rubber and paint/coating under trading segments. The Company will strive to improve the existing product range and widen the customer base.

Reply: Mr Tang Ying See

The world is full of uncertainties due to the conflict between Ukraine and Russia, trade disputes between the US and China, inflation in the US and European countries, fluctuation of raw materials cost and oil price, etc. However, Luxchem will treat the challenges as opportunities to plan new strategies for business expansion (e.g. through deeper penetration into its existing industry, related market/industry diversification, investing in Human Resources, upgrading plant, etc.) because the Company has a strong balance sheet to fund the core business.

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13. Does the Company make hand-formers for gloves?

Reply: Madam Chen Moi Kew

We do not have a manufacturing company to make hand-formers for gloves, but the Company has had an investment in a hand-former making company for more than 25 years. It is stated as unquoted shares under other investments in the Annual Report 2022. However, it is not an associate or subsidiary of Luxchem Group.