MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

13 October 2020

BY FAX/HAND
(FAX: *03-2783 9111*)

The Chairman and
Board of Directors
Ancom Berhad
Unit 30-01, Level 30, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

Attention: Choo Se Eng / Wong Wai Foong
Company Secretaries

Re: 51st Annual General Meeting (AGM) of Ancom Berhad ("Ancom") on Wednesday, 21 October 2020

In the interest of minority shareholders and all other stakeholders of the Company, we would like to raise the following issues: -

Strategy & Financial Matters

1) Ancom has proposed a restructuring exercise on 16 July 2020, involving its two subsidiaries namely - Ancom Logistics Berhad (ALB) and Nylex (Malaysia) Berhad.

   The restructuring exercise will see the takeover of S5 Holdings Inc., an immigration technology company, by ALB and the disposal of ALB's logistics assets to Nylex. Upon completion of the exercise, ALB will cease to be the subsidiary of Ancom.

   What is the status of the restructuring exercise? What are the benefits of this restructuring exercise to Ancom's shareholders? In what aspects will the disposal of logistics assets from ALB to Nylex strengthen Nylex's existing industrial chemicals business?

2) Under the Agricultural Chemicals Division, Ancom has two plants in Malaysia servicing both the domestic and overseas markets. It also plans to construct a new production plant to cater to its large export markets as well as domestic demand (page 23 of AR2020). Construction of the new plant will start in October 2020 with targeted completion by end of FY21.

   a) With the challenging economic environment and depressed market demand Ancom experienced in FY20, what is the rationale for Ancom to construct a new plant to expand the agricultural chemicals business now?

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Company No:524989-M)
TINGKAT 11, BANGUNAN KWSP, NO.3, CHANGKAT RAJA CHULAN, OFF JALAN RAJA CHULAN,
50200 KUALA LUMPUR. TEL: (603)20709090 FAX: (603)20709107
E-mail: mswatch@mswg.org.my Website: www.mswg.org.my

b) How much is the capital expenditure to construct the new plant and what is the source of funding?

c) Has the Group entered into any form of agreement with customers to secure purchase order for the upcoming capacity?

d) With the completion of a new plant, what would be the expected overall average utilization rate? What is the expected percentage increase in overall capacity?

3) In recent years, the Group has also expanded its presence in the downstream activities of agricultural chemicals which include pest control, hygiene and fumigation business (page 20 of AR2020).

How have these new ventures into downstream activities performed so far? What will be the catalysts for this segment?

4) The distribution arm of the industrial chemicals division suffered from losses due to lower sales volume and prices notwithstanding it being the largest revenue contributor (RM940 million) to the Group. In contrast, the manufacturing arm recorded a profit before tax (PBT) of RM10.5 million against RM92 million revenue in FY20.

a) What will be the catalysts to propel the distribution business back to profit after two years of consecutive losses at the pre-tax level?

b) Given the difference in the profitability of distribution and manufacturing arms, will Ancom focus more on the manufacturing business going forward?

5) The media division suffered from three consecutive years of losses at pre-tax level with loss before tax (LBT) of RM7.7 million recorded in FY20 (FY19: LBT of RM11.9 million).

Outlook for the media division is expected to be challenging in the near term. What will be the effective strategy to turn around the division?

6) The Investment Holding and Others Divisions incurred a marginal decline in aggregated loss of RM30.2 million in FY2020 compared to RM30.7 million in FY2019. Included in the segmental loss was a one-off goodwill impairment amounting to RM5.5 million (page 24 of AR2020).

What contributed to the goodwill impairment? Is any other impairment for the segment expected in the near term?

7) Other operating expenses increased significantly from RM8.298 million in FY2019 to RM14.278 million in FY2020. (Page 68 of AR).

What are the major items with significant increase in expenses? Going forward, are operating expenses expected to increase substantially?

8) As at end of FY20, Ancom made an impairment amounting to RM21.86 million on its trade receivables of RM221.07 million (page 114 of AR2020). The impaired amount is 9.8% of the total receivables during the year, as compared to 7.98% in FY19 (or equivalent to RM23.13 million out of total RM290 million trade receivables in FY19).

    a) What are the measures that could be taken to ensure better collection in the future? Given the significant impairment made, is there a need for Ancom to tighten its credit policy in order to reduce the risk of non-payment by customers?

    b) Why did the Company not renegotiate the terms of trade receivables or secure collateral or credit enhancement for trade receivables during FY20?

9) Ancom has also made an impairment amounting to RM13.73 million on its Other Receivables. The impairment made up 17.1% of total the RM80.490 million Other Receivables (page 112 of AR2020).

    What are the major components in Other Receivables? Why was there a considerable amount of impairment? What is the probability of recovering the impaired amount? Was there any portion due from connected/related parties?

10) There was a huge impairment loss of RM13.222 million (60.7%) made in respect of amounts owing by associates totaling RM21.79 million as at end of FY2020 (page 117 of AR2020).

    How did such a huge impairment loss arise? To which associates do the impaired amount relate to? Are these amounts recoverable? How much of it been recovered to-date?

Please present the questions raised above and your responses at the AGM. In the meantime, we also request a written response to us as soon as possible for our reference.

Yours faithfully,

DEVANESAN EVANSON
Chief Executive Officer
DE/LCY/CCF/ANCOM/AGM 2020