MSWG

MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

7 October 2019

BY FAX/HAND
(Fax No: 603-27839111)

The 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

Dear Directors

Re: 50th Annual General Meeting (AGM) of ANCOM BERHAD ("ANCOM" or "the Company") to be held on Thursday, 17 October 2019

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

Strategy/Financial Matters

1. Despite the higher revenue, the Distribution business suffered losses of RM1.4 million compared with a Profit Before Tax of RM14.0 million in FY2018, mainly due to lower margins on certain products and negative contribution from its foreign subsidiaries in Singapore, Indonesia and Vietnam. The volatility of crude oil prices and weaker demand had affected the product margins. (page 22, Annual Report)

   What are the higher margin products that you intend to focus on in FY2020 to mitigate the lower profit margins faced by the Group? How do you intend to improve these foreign subsidiaries that are loss making?

2. Soft demand for FCF and geosynthetic drainage products led to decreased revenue of RM112.3 million by the Polymer Division compared with RM125.8 million in FY2018. The domestic market saw a significant drop in demand for the PVC synthetic leather, as cheaper imported fabrics dominated the furniture upholstery segment. (page 23, Annual Report)

   How will you address this competition and sustain this segment in FY2020?

3. On the geosynthetic drainage products, it was stated that the Government's suspension of major infrastructure projects had curbed the demand of such products. This was mitigated by your exports to Singapore, Indonesia, Australia and Hong Kong.

   What is the latest position on this? What is your plan for FY2020? What is the proportion of the domestic and export markets for this product, going forward?

4. We note the on-going restructuring exercise of your Logistics Division for the last two years. For FY2019, the division has posted a lower revenue of RM39.2 million compared to RM50.8 million in FY2018.

   How will you address the declining revenue? How much capital budget have been allocated to revamp the trucking business? What is your fleet age profile and usage level?

   When do you expect this division to be profitable? (FY2019: Loss before taxation of RM0.6 million)

5. The Media Division's revenue dropped 30.5% from RM151.3 million in FY2018 to RM105.2 million. The Division incurred a loss before taxation of RM11.9 million compared to a loss before taxation of RM10.4 million in FY2018. Included in the results for FY2019 was a RM23.4 million gain from the derecognition of PBSB as a subsidiary of RBSB. (page 24, Annual Report)

   What is the plan to turn around this division and what's the target for FY2020, going forward?

Corporate Governance

1. On the Corporate Governance Overview Statement, (page 39, AR), the Board has explained its assessments and justifications to retain the service of two of its long serving independent directors above a cumulative period of twelve (12) years.

   The company has also explained on page 12 of its Corporate Governance Report (CGR) that it is departing from the adoption of Practice 4.2 on the application of a 2-tier voting process in the forthcoming AGM for Resolution 9 and 10 on the retention of the independent directors.

   When will the Company adopt a two-tier voting process to comply with Practice 4.2? Will the Board consider adopting a tenure limit for Independent Directors, going forward?

MSWG

2. Practice 4.5 - The Board discloses the Company's policies on gender diversity, its target and measures to meet those targets. (page 15, CGR)

   We note that the Board has established a policy on boardroom diversity including gender diversity.

   Has the Board set any targets to promote and achieve some level of representation of women on the Board? (FY2019, AR – no woman on Board)

We would appreciate if the Board could present the points raised here, and their related answers, for the shareholders present at the forthcoming AGM. At the same time, we await a written reply as soon as possible for our records.

Thank you.

Yours sincerely

Devanesan Evanson
Chief Executive Officer
DE/qba/Ancom/AGM/2019

16 October 2019

Badan Pengawas Pemegang Saham Minoriti Berhad
Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Original by hand

Attention: Mr Devanesan Evanson

Dear Sirs,

50TH ANNUAL GENERAL MEETING ("AGM") OF ANCOM BERHAD ("ANCOM" OR "COMPANY")
Queries Raised by the Minority Shareholders Watchdog Group ("MSWG")

We refer to your letter dated 7 October 2019.

On behalf of the Board of Directors ("Board") of Ancom, please find attached the presentation slides which contain the information in response to the issues raised in your said letter.

We value your comments and trust that the above has clarified the issues raised.

Yours faithfully
On behalf of the Board of Directors of
ANCOM BERHAD

LIM CHANG MENG
Chief Financial Officer

ANCOM BERHAD

50TH ANNUAL GENERAL MEETING

Questions raised by
Minority Shareholders Watch Group

STRATEGY AND FINANCIAL MATTERS

<u>MSWG Question – Q1</u>

Despite the higher revenue, the Distribution business suffered losses of RM1.4 million compared to with a Profit before Tax of RM14.0 million in FY2018, mainly due to lower margins on certain products and negative contributions from its foreign subsidiaries in Singapore, Indonesia and Vietnam. The volatility of crude oil prices and weaker demand had affected the product margins (page 22 of Annual Report)

What are the higher margin products that you intend to focus in FY2020 to mitigate the lower profit margins faced by the Group?

How do you intend to improve these foreign subsidiaries that are loss making?

<u>Company's response</u>

- Foreign subsidiaries results can be improved by improving inventory and logistics management.
- In the market with weaker demand, company can lower the exposure of high inventory level and reduce the long term storage costs,
- Reduction on logistics costs can be improved by better load and delivery planning.
- Management is also considering scaling down the foreign operational activities especially those loss making foreign subsidiaries.

STRATEGY AND FINANCIAL MATTERS

MSWG Question – Q2

Soft demand for FCF and geosynthetic drainage products led to decreased revenue of RM112.3 million by the Polymer Division compared with RM125.8 million in FY2018. The domestic market saw a significant drop in demand for the PVC synthetic leather, as cheaper imported fabrics dominated the furniture upholstery segment. (page 23 of Annual Report)

How will you address this competition and sustain this segment in FY2020?

Company's response

- Imported fabrics dominated in the home furniture upholstery market in FY2019 because of the comfort and vibrant designs they offer.
- For FY2020 and beyond, the Polymer Division is looking at other industries or businesses where vinyl coated fabrics properties and features are better suited.
- For example, furniture in restaurants, public transport, healthcare, marine and outdoor environment still prefers PVC coated fabrics for its durability.
- We are also developing "Fabric Look" vinyls, which appeal to current design trends, to serve these markets better.

STRATEGY AND FINANCIAL MATTERS

MSWG Question – Q3

On the geosynthetic drainage products, it was stated that the Government's suspension of major infrastructure projects had curbed the demand of such products. This was mitigated by your exports to Singapore, Indonesia, Australia and Hong Kong.

What is the latest position on this?

What is your plan for FY2020?

What is the proportion of the domestic and export markets for this product going forward?

Company's response

- In FY2019, the sales mix of Geosynthetics was 85% domestic and 15% exports.
- Without any significant projects domestically, we expect sales from exports market will constitute up to 65% of the total sales in FY2020 as our emphasis is to maintain and serve our existing customers in Australia and Indonesia.
- We are also targeting markets in other ASEAN countries such as Thailand, Vietnam, Philippines, Cambodia and Myanmar where large infrastructure projects have been planned and announced.
- Recently, several large infrastructure projects in Malaysia have been revived such as the East Coast Rail Link ("ECRL") and portions of West Coast Expressway ("WCE").
- This should improve the demand for our Geosynthetic drainage products domestically. Once construction for these projects started, the ratio is expected to be more balanced at 50:50 between domestic and exports sales.

STRATEGY AND FINANCIAL MATTERS

<u>MSWG Question – Q4</u>

We notes on the on-going restructuring exercise of your Logistics Division for the last two years. For FY2019, the division posted a lower revenue of RM39.2 million compared to RM50.8 million in FY2018.

How will you address the declining revenue?

How much capital budget have been allocated to revamp the trucking business?

What is your fleet age profile and usage level?

When do you expect this division to be profitable? (FY2019: Loss before taxation of RM0.6 million).

• <u>Company's response</u>

- There are essentially three (3) businesses under this division, namely trucking, tank farm and shipping.
- The division can increase revenue by:
  - Increase the number of trucks to achieve better economy of scale.
  - Expanding capacity of tank farm by approximately 20,000 cubic meter.
  - Long term lease charge of the chemical vessel to a fixed customer.
- The average capital expenditure of RM3 million has been budgeted for the replacement of trucks. The replacement rate is about 10 trucks annually.

	Number of trucks	
Age of trucks (years)	**FY2019**	**FY2018**
1 to 5	33	17
6 to 10	24	27
11 to 15	19	18
More than 15	11	20
Total	87	82

- Both trucking and tank farm business have been profitable. The key focus going forward to turnaround the chemical tanker possibility by the long-term charter to a fixed customer.

STRATEGY AND FINANCIAL MATTERS

MSWG Question – Q5

The Media Division's revenue dropped 30.5% from RM151.3 million in FY2018 to RM105.2 million. The Division incurred a loss before taxation of RM11.9 million compared to a loss before taxation of 10.4 million in FY2018. Included in the results for FY2019 was a RM23.4 million gain from the derecognition of PBSB as a subsidiary of RSB (page 24, Annual Report)

What is the plan to turn around this division and what's the target for FY2020 going forward?

Company's response

- The advertising industry has been sluggish for the last few years and there is no immediate sign of recovery.
- As part of the turnaround plan, the media division has collaborated with VGI Global Media PLC ("VGI") to divest the controlling stake to them as they are the media expert and they have successful track record in the region.
- VGI is a listed company in Thailand with a market capitalization of close to RM10 billion. They have strong financial resources and they are confident of turning around the joint media assets in the local landscape.
- To date, VGI has invested capital expenditure of approximately RM10 million to improve the asset quality, especially in the digital solutions.
- With a strong partner like VGI, we are confident that the media business can improve significantly in the near future.

CORPORATE GOVERNANCE

MSWG Question – Q1

On the Corporate Governance Overview Statement (page 39, AR), the Board has explained its assessments and justifications to retain the service of two of its long serving independent directors above a cumulative period of twelve (12) years.

The company has also explained on page 12 of its Corporate Governance Report ("CGR") that it is departing from the forthcoming AGM for Resolution 9 and 10 on the retention of the independent directors.

When will the Company adopt a two-tier voting process to comply with Practice 4.2? Will the Board consider adopting a tenure limit for independent directors, going forward?

Company's response

- The Board takes note of the points raised by MSWG on the adoption of a 2-tier voting process on the retention of the independent directors who have served a cumulative period of more than 12 years and a tenure limit for independent directors going forward.

- The Board will discuss these matters in its coming Board meeting. An update will be provided to the MSWG when a decision is made by the Board.

CORPORATE GOVERNANCE

MSWG Question – Q2	Company's response
Practice 4.5 – The Board discloses the Company's policies on gender diversity, its target and measures to meet those targets (page 15, CGR). We note that the Board has established a policy on boardroom diversity including gender diversity. Has the Board set any targets to promote and achieve some level of representation of women on the Board? (FY2019, AR – no woman on Board)	• The selection of female candidates will be primarily dependent on the pool of women candidates with the necessary skills, knowledge and experience in the fields of business that the Company and its subsidiaries are engaged in. • The ultimate decision to appoint female candidates will be based on merit and contribution that the chosen candidates will bring to the Board. Where suitable candidates are found in future, the Board may seek to increase representation from female members. • The Board will continue to search for woman directors to join the Board as and when a suitable candidate who meets with the Board's expectation in her experience and expertise. • The Board shall continue to find the suitable female candidates.