



MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

8 October 2019

BY FAX/HAND

(Fax No: 603-78041316)

The Board of Directors
NYLEX (MALAYSIA) BERHAD
Unit C508, Block C, Kelana Square
Jalan SS7/26, Kelana Jaya
47301 Petaling Jaya
Selangor Darul Ehsan

Attention: Choo Se Eng/Stephen Geh Sim Whye
Company Secretaries

Dear Directors

Re: 49th Annual General Meeting (AGM) of NYLEX (MALAYSIA) BERHAD ("NYLEX" 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. The Group's profit before tax which was arrived at after incorporating the share of results of associates and some corporate expenses, declined from RM30.6 million recorded in the last financial year, to RM4.6 million for FY2019, mainly attributed to lower contribution across the divisions. (page 13, Annual Report)

What measures will you take to address the decline and improve the performances of these associates and the specific divisions for FY2020?

2. The synthetic leather industry is moving towards environmental friendly products such as Thermoplastic Polyurethane (TPU) and polyurethane. To maintain your competitiveness in the industry, you will focus on product development for TPU synthetic leather and water-based lacquer systems with capabilities in water-based technology for the automotive industry. You are currently capable of supplying vinyl with non-volatile organic compounds to the automotive industry. (page 14, Annual Report)

What is your target in terms of sales and market for this new product in FY2020? How much research and development budget have you incurred and what's the budget for the next 2 years for new products?

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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3. For Geosynthetics, we note your focus to continue to seek projects in the ASEAN region where infrastructure growth is promising. You will also build stronger networks with distributors and international contractors from China besides exploring the possibility of extending the drainage products range or diversifying into landscaping and green environment segments. (page 14, Annual Report)

How successful have you been in penetrating the ASEAN region? What is the potential market? What are the challenges you are facing? Is there any contract signed with international parties in the green environment segment?

4. Distribution business segment suffered losses of RM11.4 million compared with profit before tax RM14.0 million last financial year, 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 has affected the products margin. (page 15, Annual Report)

What is the gross sales percentage of these lower margin products from the total available products you have?

How successful are the measures taken to focus on higher margin products and improvement in the inventory and logistics management?

5. How effective are the measures you have taken to address the greater competition in the market as a result of the Government's decision to lower the import duty of phosphoric acid? (page 15, Annual Report)

Corporate Governance

1. On the Corporate Governance Overview Statement, (CGOS) (page 23 & 24, Annual Report), the Board has explained its assessments and justifications to retain the service of one long serving independent director above a cumulative period of twelve (12) years.

The company has also explained on page 13 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 10 on the retention of the independent director.

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?

2. Practice 4.5 - The Board discloses the Company's policies on gender diversity, its target and measures to meet those targets. (page 17, 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)

3. We refer to page 25 of the CGOS on the attendance records of Encik Khamis bin Awal, an independent director both at Board (4/6 : 67%) and Audit Committee level (3/5 : 60%) for FY2019. Please explain the reasons for the director not been able to attend all these meetings.

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/NYLEX/AGM/2019



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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

By Fax/Original by hand

Attention: Mr Devanesan Evanson

Dear Sirs,

Re: FORTY NINE (49th) ANNUAL GENERAL MEETING OF NYLEX (MALAYSIA) BERHAD

We refer to your letter dated 8 October 2019.

On behalf of the Board of Directors ("Board") of Nylex, we would like to provide the following information in response to the issues raised in your said letter: -

Strategy/Financial Matters

1. The Group's profit before tax ("PBT") declined from RM30.6 million recorded in the last financial year, to RM4.6 million for FY 2019, mainly attributed to lower contribution across the divisions. Share of results of associates recorded in FY 2019 was a loss of RM244,000.

In order to improve the performance of the Group, we will focus on higher margin products and further improve our inventory as well as logistics management for our distribution businesses. As for the manufacturing operations, we will optimise production efficiency as well as adopting effective pricing strategy to preserve the profitability of the Group.

2. The demand for vinyl with non-volatile organic compounds (VOC free) (water-based lacquer technology) is for automotive industry. Our automotive products generated revenue of RM4.3 million in FY 2019. In the coming year, we are targeting a double-digit growth in revenue from these automatic products.

We are exploring the product development on Thermoplastic Polyurethane ("TPU") and PU. We may carry out R&D in collaboration with suppliers from Taiwan who have the know-how. The calendering equipment in our Shah Alam plant is currently not capable of producing TPU and PU. We may explore on casting technology which has to be upgraded.

3. Nylex has been supplying Geosynthetics drainage products to several ASEAN countries i.e., Singapore, Thailand, Vietnam, Indonesia and Philippines for the past 30 years. Besides ASEAN, we export to Australia, India, Middle East, Hong Kong and Taiwan.

In the coming years the potential growth areas are Indonesia, Vietnam and Philippines where large government spending on new infrastructure is expected.

We do not have any contracts with international parties. In export markets, we work with distributors who secure projects in their own countries.

4. Distribution business segment suffered losses of RM1.4 million compared with PBT of RM14.0 million last financial year, mainly due to lower margins earned on certain products and negative contribution from its foreign subsidiaries in Singapore, Indonesia and Vietnam. The volatility of crude oil prices and weaker demand has affected our products margin.

Product margins earned in FY 2019 was generally lower compared with last financial year. About 85% of the revenue generated in this business segment recorded lower margins.

The market remains tough and challenging. We are reviewing our range of products to focus on those that has potential to generate higher margin. At the same time, we are improving our inventory management to lower the exposure of high inventory level and thus reducing the storage cost. We are also taking steps to reduce our logistic cost by maximizing the load of transportation and better delivery planning.

5. The Government's decision to lower the import duty on phosphoric acid has lowered the barrier of entry into this industry/market, resulting in greater competition in the market thus eroding the profit margins of these products. To negate the effects of such competition, we are focusing on enhanced manufacturing efficiency, seeking new competitive supply sources and maintaining good quality of our products. Providing good service to customers also plays a role in maintaining, if not growing, the market shares.

Corporate Governance

1. 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 at its coming Board meeting. An update will be provided to the MSWG when a decision is made by the Board.

2. On the appointment of women directors on the Board, the Company has explained in its Corporate Governance Report that selection of female candidates will be, in part, dependent on the availability 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 is found.

However, the Board has not set any deadline on this matter.

3. Encik Khamis was absent at the Board and Audit Committee meetings on 24 January and 25 April 2019 as he was overseas during that periods. On 24 January 2019, he was performing his Umrah in Mecca. On 25 April 2019, he was in Korea on business trip which he was not able to reschedule.

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

Thank you.

Yours faithfully
On behalf of the Board of Directors of
NYLEX (MALAYSIA) BERHAD

Dato' Siew Ka Wei
Group Managing Director