MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

13 October 2020

BY FAX/HAND
(FAX: *03-7804 1316*)

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

Re: 50th Annual General Meeting (AGM) of Nylex (Malaysia) Berhad (Nylex) 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 Berhad, the holding company of Nylex has proposed a restructuring exercise on 16 July 2020, involving its two subsidiaries namely - Ancom Logistics Berhad (ALB) and Nylex. The restructuring exercise will see ALB disposing its Synergy Trans-Link Sdn Bhd to Nylex.

   The Board has approved the proposed acquisition in principle subject to the terms and conditions to be determined later (Nylex's announcement dated 16 July 2020).

   How has STL performed financially in recent years? How will the proposed acquisition of STL be in the best interest of Nylex's shareholders? How will the acquisition strengthen Nylex's existing industrial chemicals business?

2) Fermpro Sdn Bhd, a wholly-owned subsidiary of Nylex will double its ethanol production capacity to 10 million litres per annum from the current 5 million litres per annum upon the completion of a new manufacturing plant 18 months from now.

   a) Which grade of ethanol will the extra capacity produce? Where does Fermpro's yield of ethanol from cane sugar molasses stand as compared to industry peers?

b) To which industry will the extra production volume cater to? What is the current supply and demand dynamics of ethanol in the local and international markets?

3) The Polymer Division recorded a 22.6% decline in revenue to RM86.9 million in FY20 (FY19: RM112.3 million) due to lower production volume in both the Shah Alam and Surabaya plants.

This division also came under heavy pressure following the implementation of movement restrictions, which severely curtailed demand, especially in the fourth quarter of the financial year (page 13 of AR2020).

a) Has demand picked up significantly since the end of May 2020?

b) What is the outlook for the polymer business in FY2021 in terms of demand and prices?

4) To meet the industry requirements for environmental products, Nylex will focus on product development for PU synthetic leather and gradually reduce dependency on PVC synthetic leather (page 14 of AR2020).

Is the production of PU synthetic leather more environmentally friendly as compared to PVC leather? When does Nylex expect to commercialise the PU leather?

5) The Logistic Division narrowed its losses to RM2.3 million in FY20, as compared to losses of RM4.9 million in FY19, due to higher revenue from the vessel segment and better space utilisation (page 15 of AR2020).

What is the current space utilisation rate? What will be the optimal space utilisation level, average charter rate, and chartered volume for the division to turn around?

6) An impairment of goodwill amounting to RM10.9 million was made on Nylex's 100% wholly-owned subsidiary - CKG Chemicals Pte Ltd in FY20. The impairment was due to the decline in CKG operation arising from the COVID-19 pandemic (pages 13 and 94 of AR2020). The impairment had contributed to Nylex's loss before tax (LBT) of RM18.9 million.

How did CKG perform financially in recent years? How had the COVID-19 pandemic affected CKG's operation to the extent of requiring an impairment? Does Nylex foresee further impairment on CKG or any other subsidiaries?

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/NYLEX/AGM 2020

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20 October 2020

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By Fax/Original by hand

Attention: Mr Devanesan Evanson

Dear Sirs,

Re: **50th ANNUAL GENERAL MEETING OF NYLEX (MALAYSIA) BERHAD**

We refer to your letter dated 13 October 2020.

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. For the past three (3) financial years, Synergy Trans-Link Sdn Bhd and its subsidiaries ("STL Group") recorded an average consolidated annual revenue of about RM29.6 million and average consolidated annual Profit Before Tax ("PBT") of about RM3.8 million.

   STL Group owns and operates a chemical tank farm terminal and chemical road tankers services. These are essential infrastructures for the chemical distribution business of Nylex. The Proposed Acquisition will allow Nylex Group to emerge as a one-stop integrated chemical distribution and chemical logistics group of companies, with both land and sea logistics capabilities.

   With the Proposed Acquisition, the chemical tank farm and chemical road tankers of the STL Group will also complement the existing warehouse, chemical tank farm and chemical vessel operations forming part of the Logistics Division of the Nylex Group. Nylex is expected to benefit from operational synergies and know how arising from the operational consolidation, which include enhanced efficiencies and economies of scale as a result of sharing of resources, expertise and experience and a broader customer base.

2. (a) Upon completion of the new ethanol manufacturing plant, Fermpro Sdn Bhd ("Fermpro")'s additional capacity of 5 million litres per annum will be used to produce Denatured Ethyl Alcohol only. Fermpro's current yield of ethanol is on par with industry peers.

b) The target market for this additional volume of Denatured Ethyl Alcohol is to manufacturing and/or industrial sectors. Malaysia is currently a net importer of ethanol where total local production capacity is not sufficient to meet local demand.

There are many producers regionally and globally, who are exporting ethanol to Malaysia market.

3. (a) Since the end of May 2020, Polymer Division's revenue continues to be impacted by the slowing economies. The Covid-19 pandemic concerns led to depressed market sentiment and weaker demand.

   b) FY 2021 is expected to remain challenging as market conditions remain volatile. We will manage our product mix, to concentrate on selling products that generate higher margins.

4. The market perception is that PU synthetic leather (Polyurethane) is more environmental friendly as compared with PVC leather (Polyvinyl Chloride) as PU synthetic leather is more degradable over time. We intend to upgrade our production line in Shah Alam plant, in this new financial year. Upon completion, we will be able to produce semi PU products. We will consider further upgrading the production line to produce full PU products if there is sufficient market demand to justify the investment.

5. The Logistic Division owns a chemical tanker, *MT Nylex 1*, rated with 6,800 deadweight tonnes (dwt) and Tier II of the International Maritime Organisation (IMO) Standards. The current space utilization of *MT Nylex 1* is at about 72%. The optimal space utilization level would be 95% to 100%. The average charter rate for the vessel to breakeven would depend on the chartered volume and the destinations. Ideal chartered volume would be 5,000 MT and above for each shipment.

6. CKG Chemicals Pte Ltd ("CKG") is our wholly-owned subsidiary in Singapore, involved in trading and distribution of industrial chemicals. CKG suffered loss before tax of RM7.7 million in the last financial year (FY 2019), mainly due to the volatility of crude oil prices and weaker demand which has affected its products margin.

   For the current financial year (FY2020), the Covid-19 pandemic coupled with the glut in the oil supply resulting from Saudi Arabia-Russia price war, further weakened the oil and commodities prices and margins. CKG suffered higher losses of RM9.9 million for FY 2020. Pursuant to MFRS 136 Impairment of Assets, the Company has conducted an annual impairment test on the investment in subsidiaries using the discounted cash flows ("DCFs"). Based on the DCFs produced taking into consideration the uncertainty in the global economic outlook and the volatility in crude oil prices, the Company has to recognise the goodwill impairment on CKG of RM10.9 million.

   The Company shall conduct impairment test on the investment in subsidiaries annually to ascertain whether any impairment is required.

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