SCIENTEX BERHAD
Company No. 196801000264 (7867-P)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE 51ST ANNUAL GENERAL MEETING HELD AT SCIENTEX PACKAGING FILM SDN BHD, LOT 4, JALAN SUNGAI PINANG 4/3, SEKSYEN 4, TAMAN PERINDUSTRIAN PULAU INDAH, 42920 PELABUHAN KLANG, SELANGOR DARUL EHSAN ON TUESDAY, 17 DECEMBER 2019 AT 11.30 A.M.

YBhg. Tan Sri Dato' Mohd Sheriff bin Mohd Kassim ("the Chairman") chaired the 51st Annual General Meeting of Scientex Berhad ("the Company") ("AGM"). The Chairman called the Meeting to order at 11.30 a.m. after confirmation of the requisite quorum being present at the AGM. With the consent of the shareholders and proxies present at the AGM, the Notice convening the AGM having been circulated earlier, was taken as read. The Chairman and Poll Administrator then briefed the conduct and process for the AGM, voting and e-polling before the Meeting proceeded with the formal agenda of the AGM. The independent Scrutineer also confirmed the e-polling procedures and system had been tested and proven reliable.

The Company received letter from the Minority Shareholders Watch Group ("MSWG") and the Company's written reply to the questions was read out to the shareholders at the AGM, as follows: -

<u>Strategy & Financial Matters</u>

1. With the integration of Daibochi Berhad ("Daibochi") and Mega Printing & Packaging Sdn Bhd ("Mega"), the Group's manufacturing division has expanded its products segment from 3 main categories of stretch film, custom film and specialty products to the latest 4th category which is known as converting (page 28 of the Annual Report (MD&A)).

a) Please provide the revenue and gross profit margin for the four product lines for FY2019.

Answer: The revenue breakdown for the four product lines for FY2019 are as follows: -

Product Line	Revenue (RM mil)
Stretch film	793
Custom film	1,038
Specialty products	340
Converting	187*

* Comprising 5 months results from March to July 2019

Collectively, the four product lines yield an average gross profit margin of approximately 13.3% for FY2019.

b) What are the benefits of integration of Daibochi and Mega to the Group?

Answer: The integration of Daibochi and Mega into the Group is expected to derive the following benefits: -

(i) it enhances and strengthens the operating capabilities and enables the Group to realize greater economies of scale through synergistic and complementary product portfolios with increased product differentiation to better serve customers within the enlarged Group;

(ii) the Group is able to leverage on the respective strengths, brand names and track record built up over the years to capitalise on shifting consumer needs and an evolving customer landscape by collaborating with brand owners to provide responsible and sustainable packaging solutions to address growing environmental concerns; and

(iii) it brings together complementary organisations producing high quality custom films for the global flexible plastic packaging ("FPP") market whilst creating a strong packaging entity from Malaysia to compete globally besides being a catalyst for the future growth and development of the Malaysian plastic converting industry.

c) What are Daibochi's percentage contribution towards topline and bottomline of the Group?

Answer: For FY2019, Daibochi contributed revenue of RM187.236 million, which represent 5.76% of the Group's total revenue. It also contributed RM6.828 million in terms of net profit, representing 2.04% of the Group's total net profit for the same period.

2. In relation to manufacturing plant

a) Please provide details of the list of manufacturing plant capacity and utilization rate under the Scientex's Group.

Answer: Collectively, the manufacturing division has an existing utilization rate of approximately 65% based on its capacity of approximately 460,000 metric tonnes in respect of its 19 manufacturing facilities spread over Malaysia and overseas.

b) What are the strategies adopted currently to control the Group's plant production cost?

Answer:

1) Adoption of a world class ERP system which enables the Group to have excellent resource planning in terms of inventory management, production and delivery with a lean and cost-effective operating model.

2) Exploring new technologies to further enhance current recycling efforts to deal with printed waste products which is currently treated as waste as it is not recycleable and has a cost impact on production.

3) Gradual adoption of process automation to improve long term productivity and reduce wastage which will yield better results via reduction of production down time, reduction of waste and reduction of manufacturing defects which are factors bearing cost impact on the Group's performance.

3. As stated on Page 157 (Segmental Information) of the Annual Report, the Group's property development contributed RM286.544 million or 62.05% of the consolidated profit.

a) Will property development segments become the major contributor towards the bottom-line of the group in the future?

Answer: The Group has 2 core divisions namely manufacturing and property development. It is the intention of the Group that both divisions shall play an equal role in contributing to the bottom-line of the Group as part of its overall risk management strategy to ensure sustainable growth without over-reliance on a specific sector or industry which may be subject to cyclical performance. Accordingly, both divisions are expected to continue to play an equally important role in the Group's performance for the foreseeable future.

b) What are the strategies going forward on property segment?

Answer: The property development division will continue to look out for reasonably priced landbanks at strategic locations throughout Peninsular Malaysia which will enable the Group to plan and develop sustainable self-contained townships with specific focus on the affordable housing segment as its core product offering. The Group will focus on deriving operational efficiencies through better township planning and utilization of land, adoption of cost effective industrialised building systems with on-time delivery of products to buyers and centralized planning and purchasing as part of its on-going and continuous efforts to manage costs overall.

c) As the group is focusing on affordable home segments, are there any plans to diversify into luxury or high-end segments of property?

Answer: The Group foresees that the affordable housing segment to be the main revenue generator in the near and mid-term as demand for affordable housing remains resilient. The Group may consider to diversify into the higher end property segment when there is a growing market demand for such products.

4. The Group has recorded a substantial increase in Other expenses from zero in FY2018 to RM21.213 million in FY2019, an increase of 21.213 million or 100.0% (page 88, Statements of Profit and Loss and Other Comprehensive Income of the Annual Report).

a) Please provide the details of Other Expenses for FY2019

Answer: Details can be found at Page 121 Note 8 whereby the expenses comprises realized and unrealized losses on foreign exchange.

b) What was the reason for the increase in Other Expenses?

Answer: The increase is attributed to both realized and unrealized losses on foreign exchange due to the weakening of Ringgit Malaysia. This is in contrast to the previous financial year where the gain on foreign exchange was recorded in Other Income.

5. Please provide the Gross Development Value ("GDV") of existing and new property launches in FY2020.

Answer: For FY2020, existing GDV launched is approximately RM100 million and upcoming new launches is estimated at RM1 billion.

6. Please provide the expected GDV of the recently acquired freehold land in the following states as disclosed on page 134 of the Annual Report: -

a) 17.60 acres in Mukim Hulu Kinta, Perak for a cash purchase consideration of RM25,600,000.

Answer: The GDV is approximately RM100 million.

b) 2 pieces of land measuring approximately 208.90 acres and a piece of land measuring approximately 4.74 acres in Mukim Durian Tunggal, Melaka for cash purchase consideration of RM71,116,000 and RM2,355,000 respectively.

Answer: The GDV is approximately RM600 million.

7. In line with the Group's aggressive expansion strategies, Group trade receivables has increased tremendously (page 142 of Annual Report). Group's trade receivable has increased 55.13% to RM598.079 million in FY2019 from RM385.544 million in FY2017.

a) What are reasons for the increase in trade receivables?

Answer: The increase in trade receivables is in tandem with the overall increase in revenue which was contributed by the organic growth of the Group as well as the inorganic growth arising from the new acquisitions. Notwithstanding the aforesaid, and based on annualized Q4FY2017 and Q4FY2019 trade debtors turnover days, the turnover days remain consistent at below 60 days.

b) What are the strategies adopted currently to reduce the risk of impairment?

Answer: The credit control department continuously monitors the creditworthiness of debtors on a regular and periodic basis, thus enabling credit control to take appropriate and timely action when there are signs of deterioration in asset quality. As for the property development division, the pre-qualification of potential buyers by the financial institutions has substantially reduced the risk of default by the buyers in its development projects.

Corporate Governance Matter

1) The board does not have 30% gender composition of women directors. Kindly look into this to be in line with Practice 4.5 of the Malaysian Code of Corporate Governance 2017 that stipulates that Large Companies are required to have 30% women directors.

Answer: The Group targets to comply with the recommendation of Practice 4.5 of the Malaysian Code of Corporate Governance 2017 within 3 years as disclosed in its CG Report 2019. The Nomination and Remuneration Committees will, when sourcing for suitable candidates for any Board positions, give due consideration to the diversity issue of gender, ethnicity and age to ensue that it is in line with existing best practices.

On behalf of the Board, the Chairman thanked MSWG for its attendance and for raising the questions in the interest of all parties.

After the MSWG letter was addressed, shareholders raised questions on some key matters, in which the Chairman and Managing Director of the Company provided the following explanations and answers: -

1. The Phoenix, Arizona plant was established to complement the existing stretch film production in Pulau Indah plant and to capture the US market. The business model of Phoenix, Arizona plant was replicated from the Pulau Indah plant which production was backed by a SAP system. Once the Company has built up the momentum, it should be able to compete in the US market. The overall utilisation rate of the Group was about 65% and was looking forward to further increase the utilization capacity of its Phoenix, Arizona plant. The Group was expecting the commissioning of 3rd extrusion line in the Phoenix, Arizona plant in FY2020.

2. The Group currently has 19 manufacturing facilities and was venturing into the converting business to capture the market of more value added products. The profit margin of the manufacturing division was not materially affected by the fluctuation of resin prices as selling prices were closely linked to the resin prices.

3. Contrary to the Group’s practice in keeping minimal inventories, its newly acquired subsidiary was required to keep inventories of up to 40 days to meet the supply requirements of its multinational customers which fetches higher profit margins.

4. The Group reiterated that plastic usage will be an issue unless there was a proper plastic management system in place. The Group’s films were mainly recyclable but recycling became more difficult when it involved more complex layers and laminations. The Group was working on developing more mono material laminated products which would be recyclable.

5. The Group's optimal gearing ratio stood at around 0.5 times based on the prevailing business environment and market conditions. It aimed to maintain a balanced cash flow ratio to ensure an efficient capital structure with adequate funds available for future growth and dividend payment to shareholders. Besides the dividend payout of approximately RM103.1 million, the Group had invested substantially on new acquisitions of subsidiaries, machineries and land banks during FY2019 for future growth.

6. There were RM700 million of unbilled sales under the property division. With the continuing expansion in its landbank, stable sales and steady construction progress in the Group's developments, the Group expects contribution from the property division to remain sustainable in financial year 2020.

7. Following the acquisition of Daibochi, the products segment of the manufacturing division expanded from its 3 main categories of stretch film, custom film and specialty products to include the 4th category known as converting. Prior to the acquisition, Mega was a direct competitor of Daibochi.

8. The Group had invested in the purchase of 10 new recycling machines as most of the films produced by its manufacturing division was recyclable. As part of its efforts to tackle plastic waste, the Group had also collaborated with Malaysian Plastics Manufacturers Association to educate and launch various plastic waste management awareness programmes to schoolchildren. In addition, the Group was producing 6 micron down gauge thin films compared to the conventional thickness of 23 micron which saw reduction in material usage.

9. With the integration of both Daibochi and Mega, the Group will continue to collaborate with multinational consumer brand customers to innovate and develop sustainable packaging solutions in the food and beverage industry as well as the fast-moving consumer goods segment towards achievement of 100% recyclable packaging products by 2025.

10. The Board took note of a shareholder's request to display the number of shareholder votes as additional information on the voting results screen for all shareholders' notation during the meeting.

All the resolutions tabled at the AGM and voted upon by e-polling were duly passed by the shareholders. The shareholders also received the Audited Financial Statements of the Company for the financial year ended 31 July 2019 together with the Reports of the Directors and Auditors thereon.

The Chairman declared the AGM concluded at 12.45 p.m.