QUESTIONS RAISED BY MINORITY SHAREHOLDERS WATCHDOG GROUP

STRATEGIC & FINANCIAL MATTERS

1) The export sales had declined for the past 2 consecutive year from RM117.1 million in FYE 2016 to RM100.76 million in FYE 2017.

(i) As highlighted on page 18 of the Annual Report 2017 ("AR2017), the decline in sales was a result of a reduction in sales to an international customer whose margin were higher than the average margins achieved by the Tomypak Group as a whole.

In view of the above, what measures have been taken by the management to increase the sale to the said international customer and to boost the Group's export sales?

There are 2 prong strategies undertaken by management to increase sales generally.

The first is to engage with all existing customers, including international customers with newer and better product offerings. In this respect, it also includes Tomypak having more intensive engagement with these customers. Such strategies have borne successes with both existing local and international customers. We foresee that the commissioning of the CPP plant which will allow Tomypak to enhance our product development capabilities especially in terms of newer and more durable films at competitive cost and we will be able to achieve better success with our existing customers.

The second strategy is to expand our customer base, both local and international via more market research, sourcing and engaging new potential customers via existing market contacts and direct contact, new business partners, participation in international renown food and packaging fairs/exhibitions and sourcing and appointing more international marketing agents.

(ii) There are concerns that the increasing capacity in flexible packaging in 2018 could exceed demand substantially. Please share your views whether this will negatively impact the performance of the Group, especially the export sales?

As projected by many internationally well-known research organisations, the demand for flexible packaging particularly for the food and beverage products, for which Tomypak has the necessary qualifications, certifications as well as confidence of its existing customers, is expected to grow significantly over the next few years as a result of changing life styles, better purchasing power as well as the advent of more sophisticated packaging technologies.

(iii) When is the Group expected to resume its growth in export sales?

Tomypak Group is expected to increase its international sales in 2019 when all the new equipment are installed and commercially operational. Tomypak foresee that the absolute quantum/value of international sales may increase but the percentage of local sales vs international sales may remain at current level.

2) **On page 17 of AR2017, it states that a major review of the realignment of the plant and equipment in both plants at Tampoi and Senai will be undertaken in early 2019, and the realignment is planned to be completed by the end of FY 2019.**

(i) When was the realignment of the plant in Tampoi, which was started in the second-half of 2017, completed and what was the cost incurred for the realignment exercise in Tampoi during 2017?

The first phase of the realignment of the two plants commenced when the new printing line (PL 8) was successfully commissioned and commenced commercial operation in Q2 of 2017, and the new extrusion laminating line (EL 6) was successfully completed in Q3 of 2017. This entails the relocation of the 4 units of slitters, 1 unit of Solvent Free Lamination machine, 3 units of Rewinders as well as the relocation of the primary raw materials and finished goods warehouse from the Tampoi plant to the Senai plant. The cost for this phase of realignment was minimal at approximately RM500,000 as it involves mainly transportation and installation costs of the slitters and other machines transferred from Tampoi, as well as transportation costs of all raw materials and finished goods ready for packing and shipment to customers, from Tampoi warehouse to the new Senai warehouse.

(ii) **Page 20 of the Annual Report 2016 states that "A major realignment of the plant and equipment will be undertaken and completed by the end of FY 2017. This will improve the overall productivity of both plants, particularly the existing Tampoi plant as it is currently operating within a very tight and congested environment."**

In view of the above, why is there a need for another realignment for the plant and equipment in Tampoi plant in year 2019, as it has already carried out a realignment exercise which was to be completed by end of FY2017?

The second phase of the realignment will entail the movement of 4 existing printing lines, 6 laminating lines and 7 units of slitting machine from the Tampoi plant to the new Senai plant. This major movement, which will be carried out progressively, will only be carried out once all the new printing lines (1 already installed and commercially operational and 2 more printing lines have been purchased and are been delivered and installed in stages), the new dry laminating line and the new film casting plant and its ancillary equipment are installed and fully operational.

In addition, the new Senai plant is pending its FSSC 22000 certification which was completed in April 2018, and thereafter audit by some of the customers whose internal procurement policies requires that new plants are to be audited to assure compliance with their internal standards and requirements.

(iii) **As indicated above, the realignment for both plants will last for a year in 2019. Please explain the reasons for the realignment to take up to a year and whether the realignment may result in interruption of operation.**

The realignment does not only entail the physical movement of the equipment from Tampoi. It also entails the assessment of these equipment by the original equipment supplier to determine whether any major repairs/overhaul needs to be carried out on these equipment as some of these equipment have been in use for a number of years and may require overhaul and/or major maintenance and upgrading.

In planning the realignment, a comprehensive action plan has been developed for this purpose, including contingency plans to ensure that there will be no major interruption of all on-going operations. This is one of the main reason that the second phase will only be undertaken when at least 2 of the 3 new printing lines are installed and have commenced commercial operation.

3) We refer to page 18 of AR2017, the lower gross profit margin of the Group was due to an increase in cost of goods sold and several other factors.

(i) How will the Group address the higher cost of raw materials to maintain its profit margin?

Some of the steps taken to address the higher raw materials costs include:

a) Bulk purchase at lower prices with staggered delivery schedule;
b) Close monitoring of market price movements;
c) Continuing negotiation with materials suppliers for better terms;
d) Sourcing for alternative source of supply with better terms; and
e) Purchase raw materials in different form, for example purchasing critical expensive resins in bulk form rather than bag form as it is cheaper, easier to store and maintains the inherent quality of the material.

(ii) What is the Group's cost transfer policy and how long does it usually take to pass on the incremental cost to its customers?

Where feasible, Tomypak will renegotiate selling prices with customers when raw materials prices have increased substantially. The time taken to adjust prices will vary from customer to customer.

4) **As reported on page 21 of the Annual Report, all the final major production lines will be ready for commercial operations by end FY2018, What is the expected capital expenditure to be incurred for the said major production lines in 2018?**

Total expected capital expenditure including installation costs for FY 2018 including the 2 new printing lines, the film casting line, the dry tandem laminating lines, bag making machines and all ancillary supporting equipment, civil and electrical works will be approximately RM55.0 million.

5) **The announcement by the Company dated 30 April 2018 refers to a positive variance of more than 10% between the Tomypak Group's audited results for the financial year ended 31 December 2017 and unaudited results for the same period which was announced on 27 February 2018, in respect of the net profits after tax of the Tomypak Group of RM13.6 million in the audited financial statements ("AFS") as compared to RM9.5 million as announced in the unaudited results.**

(i) **Please explain the reasons for such a substantial variance of 43.2% between the unaudited results and audited results, as additional tax benefits arising from an increase in reinvestment tax allowances at one of its subsidiary should be a known fact and be easily anticipated along with the Group's investment activities.**

The variance in Profits After Tax ("PAT") between the unaudited results announced on 27 February 2018 and the audited financial statements ("AFS") announced is due to additional tax benefits arising from an increase in reinvestment allowances. There was no impact or variances on the operation profitability.

At the time of announcing the unaudited results in February 2018, the review of the capital expenditure, especially in relation to the apportionment of total construction costs (civil, mechanical and electrical costs) to the various industrial buildings within the Senai plant that qualify for reinvestment allowances was yet to be completed by the appointed tax consultants. As such, the Group took the decision to be prudent and provided a lower quantum of capital expenditure for purposes of calculating the quantum of reinvestment allowance that can be claimed in FY 2017. In addition, the final agreement with the civil, mechanical and electrical contractors as to the final construction costs of the industrial buildings (including the Variation Order) were only agreed after end February 2018. Thereafter these agreed costs were reallocated to the various buildings within the Senai plant to recompute the reinvestment tax allowances that the Group can claim for FY 2017.

(ii) Has Bursa Malaysia called up the Company to explain the variance and is there a risk of regulatory sanction by Bursa Malaysia?

No, at this moment there has been no communication from Bursa Malaysia on the above matter.

(iii) What measures have been taken by the board to prevent the recurrence of reporting deviation between unaudited results and the audited results of above 10% which may have material influence on the market price of the Company's shares?

The Board has instructed the Management to ensure that the review of the allowable capital expenditure for reinvestment tax allowances by the appointed tax consultants for financial year 2018 ("FY 2018") be completed prior to the announcement of FY 2018 results in February 2019, so that all allowable capital expenditure incurred and the corresponding reinvestment allowances for FY 2018 are accurately accounted for by the Group.

<u>**C0RPORATE GOVERNANCE**</u>

1) There was no publication of the "Key Matters Discussed" at the Company's 22nd Annual General Meeting held on 18 May 2017 on the Company's website as required under Chapter 9, Paragraph 9.21(2) of the Main Market Listing Requirements of Bursa Malaysia ("MMLR").

Please explain.

Noted the comment by MSWG and the summary of key matters discussed has been uploaded to the Company's website.

Going forward, the Company will publish the summary of the key matters discussed at Annual General Meeting (**"AGM"**), as soon as practicable after the conclusion of the AGM as per Chapter 9, Paragraph 9.21(2) of the Main Market Listing Requirements of Bursa Malaysia.

2) <u>Practice 4.2 of the Malaysia Code of Corporate Governance 2017 ("MCCG")</u>

Practice 4.2 of MCCG requires that the tenure of an independent director does not exceed a cumulative term limit of nine years and if the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

The Company in its Corporate Governance Report on page 12 stated that it has applied Practice 4.2.

In view of the above, will the Board implement two tier voting for Resolution 8 on the retention of Tan Sri Dato' Seri Arshad, who has served as an independent director for more than 12 years, at the AGM of the Company?

As recommended by Practice 4.2 of the Malaysian Code of Corporate Governance 2017, the Board will implement the two tier voting for Resolution 8 on the retention of Tan Sri Dato' Seri Arshad who has served as an independent director for more than 12 years at the forthcoming 23rd Annual General Meeting of the Company to be held on 1 June 2018.