LII HEN INDUSTRIES BERHAD
28th Annual General Meeting

Questions & Answers (“Q&A) Session
Questions from Participating Shareholders

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Questions from Minority Shareholders Watch Group (“MSWG”)

Operational & Financial Matters

1. **The Company is a major exporter of furniture to the US where 95% of its revenue in FYE 2021 came from the US. Sustainable foresting is an issue that has been gaining traction throughout the world & buyers may switch their purchases if they discover that the manufacturer indulges in procurement of its forest products which is not in line with ‘environmentally friendly practices’.**

   How does the Company ensure that the timber it sources is from sustainable forests?

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- The raw materials used by the Group are mainly rubber-wood sawn timber, MDF, chipboard, plywood & others. The rubber trees are farmed on plantations ready for tapping for latex after 6 years of planting. The tree can be tapped over a lifespan of 25 to 30 years. Trees past their producing lifespan used to be burned, but now most are “reclaimed” & milled into lumber used for furniture & flooring. This makes rubber tree a sustainable choice on two counts: less pollution from burning & a reclaimed source
- The wood sourced by the Group are from suppliers who obtained the Forest Stewardship Council certification which assures that every company in the entire chain of custody of a product operates in an environmentally responsible way
- We are a member of SEDEX, which is a global membership organisation dedicated to driving improvements in ethical & responsible business practices in global supply chains
- We are constantly observing & improving in the way we adhere to the rules & regulations imposed by the U.S. authorities

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2. **An expansion plan for a new factory building was carried out in late 2020, after many disruptions to the construction period due to a series of MCOs enforced. The new factory building, measuring 18,328 sq. metres, is scheduled to be completed in the first half of 2022. Operations are estimated to commence in the second half of 2022. (Page 6 of AR 2021)**

   (a) **What is the cost of this factory?**

   The cost of this factory amounts to about RM9.6 million, which is inclusive of ancillary facilities & a block of hostel for workers

   (b) **What is the status of the completion of this factory?**

   The factory is expected to be completed for production in the third quarter of this year once the additional workers are recruited

   (c) **What is the expected capacity of this factory?**

   The annual output from this factory is estimated at bring in RM36 million in revenue

3. **The Company's net profit fell almost by 50% in FYE 2021 to RM40.4 million from RM79 million in FYE 2020. The Company attributed the sharp fall to the slowdown in sales during the pandemic and supply bottlenecks. (Page 7 of AR 2021)**

What are the measures taken by the Company to enhance its performance for FYE 2022 as the pandemic wanes & business conditions return to normalcy?

The Group has strategised on the following measures to enhance its performance for FYE 2022:

i. **Continue to strengthen our market position by introducing new products & focusing on product innovation to meet customers' demand**

ii. **Enhance operational processes by adopting new technologies that improve production efficiency**

iii. Continue to focus & enhance the process to sustain product quality consistently

iv. Participating in international trade fairs & exhibitions to keep abreast of developments in the furniture industry, especially on newer products, designs & innovations

v. Maintain an emphasis on embracing the Economic, Environmental, Social & Governance dimensions in our business strategies to enhance our Group's sustainability going forward, for example, focusing on labour practices, energy consumption, gender diversity to tap on various insights of the workforce, use of sustainable materials for production, intensify boardroom processes on governance, & compliance with environmental laws pertaining to discharge of effluents

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4. Research & Development (R&D) is vital for a furniture manufacturer such as LHIB to continually make investments into this area as its buyers are from the US who are very discerning on innovativeness and trends.

   (a) What was the Company's R&D expenses in FYE 2021?

   The R&D expenses in FYE 2021 amounted to approximately RM1 million

   (b) What is the allocated amount for R&D expenses for FYE 2022?

   The allocated amount for R&D expenses for FYE 2022 is estimated at RM1.34 million

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5. **The Company had employed 2,866 people for FYE 2020 and has a substantial reliance on foreign labour (Page 47 of AR 2021)**

   a) **What was the ratio of foreign workers to local workers in FYE 2021? In line with tighter regulations to employ foreign workers by the Malaysian Government, what are the steps taken by the Company to mitigate the impact?**

   The current ratio is about 70 foreign: 30 locals in term of the Group's workers' profile.

   Steps taken to mitigate the impact are:

   i. **Continuous sourcing for local workers by reviewing & providing wages & other benefits attractive enough to recruit local workers**

   ii. **Ongoing assessment for pragmatic automation to be deployed in relevant manufacturing processes**

b) Is the Company looking at automating some its manufacturing processes to reduce reliance on labour since there is shortage of labour for the manufacturing sector in the country?

- The Group is constantly evaluating the possibility of automating certain manufacturing processes, taking into consideration the Cost-Benefit analysis to ensure such automation is a viable economic option & investment
- The Group operates a modular & flexible assembly line that can be quickly re-configured to cater for multiple products specifications changes. It currently does not have a homogeneous product line as the product portfolio comprises items with diverse specifications. Automation applies more beneficially in cases where tasks are repetitive in nature with minimal product change-over required in the assembly line. There is continuous self-learning on automation in the market but the present cost of rolling out significant automation far outweighs it benefits. Our production team is constantly on the look-out for processes & products, where automation is pragmatic to achieve production efficiency with a view of reducing reliance on labour.

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6. **Inventories written down to net realisable value increased significantly to RM4.5 million in FYE 2021 from RM3.9k in FYE 2020. (Page 68 of AR 2021)**

a) **What were the reasons for the substantial increase? (i.e., obsolescence or slow-moving stock?**

The write-down was mainly due to slow-moving inventory in certain hardware and veneer arising from lack of repeat orders for certain models of finished goods. This write-down was also made to align with the Malaysian Financial Standard on the valuation of inventory

b) **Do you foresee further increases in inventory write-down in FYE 2022 as the economy is still lethargic?**

There is no absolute assurance that the Group will be spared from such a risk, as challenges are still faced in the supply chain, including the availability of materials for production. Management is mindful of this risk & constantly monitors inventory availability & its movements vis-vis orders from customers. Such a review enables timely steps to be taken, maintaining a delicate balance in managing the risk of stock-out & slow-moving/obsolete which require write-off in the carrying value

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SUMMARY OF QUESTIONS RECEIVED FROM SHAREHOLDERS BEFORE THE AGM & THE COMPANY'S RESPONSES THERETO

Questions :

1. **Will the current weakening of Ringgit against USD towards 4.38 gives higher profit for LIIHEN due to forex benefits?**

   The appreciation of USD against RM has certainly increased the Group's products profit margin, & the Group's bottom line. This also enables the Group's products to be more competitive .

2. **Does the high inflation happening in US market now, allow LIIHEN to increase selling price there?**

   We have experienced price increases in most of our raw materials, especially for wood/board, veneer, hardware & packing materials for the year under review. We had, however, managed to pass on some of these costs to our customers for certain products by increasing the selling price in mid of 2021 & early 2022.

3. **How does LIIHEN which still faces foreign labor shortage increase factory output to meet business demand?**

   The shortage of man-power continues to be one of the main challenges faced by the Group. The re-opening of recruitment of foreign workers is expected to alleviate the issue. So far, the Group has obtained approval to recruit about 1,500 additional of foreign workers

4. **In such competitive and challenging environment now, how or what are the steps Management has taken to enable LIIHEN to continue growing and remaining profitable?**

   To remain sustainable in such competitive & challenging environment, the Group has strategised on the following measures:

   i. Continue to strengthen our market position by introducing new products & focusing on product innovation to meet customers' demand

ii. Enhance operational processes by adopting new technologies that improve the production efficiency

iii. Continue to focus & enhance the process to sustain product quality consistently

iv. Participating in international trade fairs & exhibitions to keep abreast of developments in the furniture industry, especially on newer products, designs & innovations

v. Maintain an emphasis on embracing the Economic, Environmental, Social & Governance dimensions in our business strategies to enhance our Group’s sustainability going forward

5. **Does the Company provide door gift to shareholders for long term support of the Company?**

We are not providing door gifts to shareholders who attend this meeting as the AGM is held fully virtual. Nonetheless, we will provide door gifts to shareholders who attend the Company's AGM in recognition of their continuous support once the situation allows for hybrid AGM to be conducted, probably at the next AGM provided there are no Movement Control Orders implemented by the Government then

6. Raw material prices have been on an increasing trend since FY 2020. What is the price trend moving forward, in term of percentage, especially on pricing for board since December 2021?

   The prices of board, i.e., Medium Density Fibre board, particle board & plywood, increased in the range of 2.5% to 9.5% in January 2022 but they have remained relative stable since then. In respect of coating materials, the prices increased in the range of 8% to 33%, largely due to rising crude oil prices

7. Kindly guide us on the overall quantum of increases in labour cost, including overtime, allowances & other benefits since the implementation of the minimum wages of RM1,500 from May 2022.

   Based on the current headcount & production level, the additional increase in wages, overtime & allowances, i.e., collectively payroll cost, is estimated at RM1 million per month

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8. **Based on the two challenges above, what percentages of the cost increases can the Group pass on to customers? Will the Group be able to maintain the pre-tax profit margin of 12% (i.e., your average margin before FYE2020)? If not, what is the expected profit margin in FY 2022 & FY 2023 (excluding any exceptional items like forex gain or assets disposal gains)?**

   The Group has plans to increase another 3% to 5% on the selling price of certain products to counter-act the operating cost pressure. However, due to prevailing uncertainty in the business landscape, we are unlikely to maintain the pretax profit margin of 12% as recorded in previous years. Barring any unforeseen circumstances, the Group expects a pre-tax margin in the range of 7% to 9% for FY 2022 & FY 2023, ignoring the effects of foreign exchange fluctuations.

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9. **As highlighted in your previous AGM, kindly further update us on the expansion status, particularly the RM6.5 million factory building construction. What is the additional CAPEX requirement, particularly the purchase of machineries & other facilities, to commerce the full operation? What is the additional capacity level (in terms of annual output generated from this factory) expected to achieve?**

   We have purchased about RM2.5 million worth of machinery for the new factory. The additional CAPEX requirement is estimated at RM2 million to enable full commencement of operations. The annual output from this new factory is estimated to bring in additional RM36 million in revenue

10. Also, kindly advise us on the status of the 7-acre land purchased at RM7.7 million. Are you going to build another factory for expansion purposes? If yes, what is the expected CAPEX & capacity level then?

The main purpose for the acquisition is to relocate one of the subsidiaries' operations, which are currently operated from rented/leased sites. The preliminary budget for construction of the relocated factory is around RM12 million

11. Kindly elaborate on the “wider market-base for the Group’s products” as mentioned in your prospect statement. Recent statistics from US showed that the furniture manufacturers have reached the end of their backlogs, the lack of new housing starts (housing start in April were 0.2% lower year-on year), coupled with interest rate hikes (inflationary impact) and slow-down in home sales (2.4% lower year-on-year) could have impacted your orders moving forward. Any plans for the Group to diversify away from the North America market? Your latest annual report shows that North America accounted for 95% of the total sales, followed by Asia (4.4%) & Europe (0.2%). In particular, sales derived from Asia dropped significantly from RM75 million in FY 2020 to RM33 million in FY 2021. What is the main reason for the drop from this region? Is it due to loss of major customers? The Company still remains focused in traditional wooded household furniture. Are you planning to widen your product range, i.e., to office furniture or outdoor furniture, to diversify away your market risk?

- **The decline in revenue from Asia region in 2021 was mainly due to reclassification of certain customers which were domiciled in Asia, but the goods which were ordered were required to be delivered to the North American region**
- **The Group currently has no plan to diversify its product portfolio to office furniture or outdoor furniture as office furniture system requires higher stockholding whilst outdoor furniture requires different types of hardwood**

12. **What is your ESG initiative moving forward? What is your ESG CAPEX requirement?**

The Board is cognisant of the growing prominence of Environmental, Social & Governance ("ESG") perspectives since the subject of ESG was first mandated by Bursa Securities for reporting in 2015. Over the last 2 years, this subject matter gained traction & publicity when our Government announced that the country would realise a net zero economy by 2050. This matter obviously impacts the way the Group's business is conducted, apart from the normal economic dimension.

Accordingly, the Board has re-constituted its Risk Management Oversight Committee & renamed it to Board Risk Management & Sustainability Committee, with its terms of reference expanded to address the remit of ESG oversight. This Committee is assisted by 3 working committees, namely the Risk Management Working Committee, Anti-Bribery & Corruption Working Committee and Sustainability Working Committee, where the members comprise mainly Executive Directors & other Management personnel.

The Group's ESG initiatives are collectively enshrined under the following themes, where material sustainability matters are being managed (full details of such matters and how they were managed are set out in the Sustainability Statement of the Company's Annual Report):

Under Social perspective of doing business:

- The minimum Standards of Housing, Accommodation & Employee Facilities Act 1990, also known as Act 446, to address on foreign workers' hostel living conditions have been adopted by the Group to ensure our workers are accorded decent accommodation without jeopardising their health & rest
- During the financial year 2021, the Group had also taken the initiative to alleviate the financial challenges faced by its workers by providing them a one-off payment to assist them on the recruitment fees they paid in their home countries to travel to Malaysia

- **Management is mindful of the importance for the Group's workforce to stay healthy and, as such, has been conducting regular health checks & providing on-going safety trainings for all its employees**
- **Apart from caring for its employees, the Group has also engaged with the community by way of blood donation exercise, including on-going community services.**

Under Governance perspective of business:

- **Formalisation of the Group's Anti-Bribery & Corruption Policies, augmented by policies on gifts & entertainment, etc., in line with the Guidelines on Adequate Procedures issued by the Government in relation to corporate liability on corruption**

- Conduct of half yearly review of the Anti-Bribery & Corruption policies and procedures, including the risk profile of the Group and action plans deployed to mitigate risks to acceptable levels
- Compliance with laws and regulations, with assurance provided by the independent Internal Audit function

Under Environment perspective of business:

- On-going exercise of enhancing efficiency in energy consumption by replacing the Group's lighting to LED lighting
- Evaluating the installation of solar panels for the Group & its CAPEX is estimated at RM3 million for the next 2 years
- On-going exercise of reviewing & value-engineering of the Group's products' components with sustainable components

As for setting an operational or capital expenditure budget just to cater for ESG, the Board is of the view that this is impracticable if ESG is intended to be an integral part of the Group's day-to-day business operations. Instead, how ESG is operationalised in the Group is by way of engagement with internal stakeholders, i.e., Directors, Management & employees, to disseminate the importance of conducting the Group's business not just with a view of maximising profit, i.e., the economic dimension, but also the ESG perspectives. This entails the intentional infusion of ESG as consideration in the decision-making process, which cuts across the Group

Moreover, the Board is aware of impending changes to the Main Market Listing Requirements by Bursa Securities to enhance sustainability management & reporting in FY 2023. As such, the Board is continuously enhancing the Group's Sustainability Framework to enable a more holistic process in managing material sustainability matters as well as reporting to shareholders in terms of the Group's sustainability performance

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13. What is the FY 2022 prospect? Is US demand still strong?

Based on the prevailing business landscape which is fraught with challenges, the prospects for FY2022 are subject to the vagaries of uncertainty, especially on the possibility of protracted supply chain disruptions that may come about from macro elements, geopolitical shifts or even emergence of contagions & their associated variants. Notwithstanding such potential adversities, the Group will stay vigilant to face the challenges.

Demand from US is seen to soften gradually. Inflationary pressures currently experienced in US have curtailed the purchasing power of their people. The high freight charges faced by customers, coupled with high stockholding they have been maintaining, have resulted in relatively lower orders received from them.

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14. **What is the ratio of local workers and foreign workers?**

    The current ratio is about 70 foreign: 30 locals in term of the Group's workers' profile

15. **How significant is the impact on the Group in respect of the introduction of minimum wages by the Government?**

    The increase in minimum wages for foreign workers from RM1,200 to RM1,500 has led the cost of production in terms of labour cost & sub-contractor charges to increase by approximately 5%

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16. Revenue contribution from North American market has increased to 95% from 77% just two years ago.

    a) What are the reasons that sales to markets such as Middle East, Europe and others declined significantly?

    The increase in revenue in North American was mainly due to reclassification of certain customers which were domiciled in Asia or other countries, but the goods ordered were required to be delivered to North American region. For the past 3 years, sales to Europe, Middle East and others only ranged from 1% to 3%

    b) Have other Malaysian furniture exporters also increased sales to North America? If yes, at the expense of which exporting countries?

    While we understand that most of the Malaysian furniture exporters are exported mainly to North America, we do not have specific information regarding other exporting countries' specific customer profile

17. The Group's strategic imperatives focus on creating values through "innovation and differentiation", as well as "operational excellence with state-of-the-art technology" (page 4 of AR).

a) How does the Group differentiate itself from competitors?

The Group engages closely with customers to explore product innovation, taking into consideration prevailing & emerging market preference, including opportunities for cost savings in design & construction methodology to remain on a competitive edge

b) How does the Group adopt state-of-the-art technology given that the Group focuses on final assembly processes which is difficult to automate?

The Group uses CAD programmes to design its products & its in-house prototyping of the samples enable the Group to segmentise its process flows optimally

18. The Group's total workforce has reduced to 2,860 from 3,333 a year ago.

a) Can the Group cope with the reduced number of workers?

Key measures taken by the Group are:

- Increasing production efficiency of the workforce
- Sourcing for more sub-contractors, taking into consideration their reliability and reputation in the marketplace
- Work on more shifts now that the Movement Control Orders have been relaxed as compared to the past Covid years

b) Had the reduced number of workers resulted in lost sales in FY2021? If yes what was the sales amount lost?

The reduced number of workers was not a salient reason for lost sales in FY 2021 but rather the series of Movement Control Orders enforced by the Government, which affected our Group as we are not involved in essential products

c) What is the workforce required by the Group by end of 2022 for optimal operations?

About 3,400 workers

19. The fair value (FV) gain of the plantation biological assets has increased by about RM1.5 million in FY2021, which is the fastest so far.

How is the FV estimated? What has contributed to the faster increase in FV?

The Fair Value determined based on the present value of expected net cash flows from the biological asset. The expected net cash flows are estimated using the expected output method and the estimated market price of the biological asset. The main contributor for the increase in FV was increase in the circumferences of the trees

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20. The new factory building was originally estimated to cost RM6.5 million

a) After much delay in construction, are there any changes in the cost estimate?

The cost of this factory amounts to approximately RM9.6 million, including other ancillary facilities like electrical fittings & installation, etc., & a block of hostel for workers, the cost of which was not included in the original estimate made in 2020

b) Does the cost include machinery? If not, what will be the total capex?

No, it does not include machinery. We have purchased about RM2.5 million worth of machinery for the new factory. The additional CAPEX requirement is estimated at RM2 million to enable full commencement of operation

21. Page 8 of AR mentions that recruitment costs totalling RM5.59 million have been reimbursed to existing workers.

a) Does the Group have any plan to refund recruitment fees for former workers, as done by some glove companies?

No, reimbursement will not be made for the former workers. Only the existing workers were eligible

b) How could the Group ensure future foreign workers are free from such fees charged by their agents?

The Group will endeavour pay such fees directly to the agents for the expenses incurred by the workers

22. "The Group would consider discussing with its customers to change the mode of exporting the furniture from “Completely Built-Up” to “Completely Knocked-Down” to pare down the freight and container costs."

a) What is the ratio of CBU versus CKD in FY2021 and as of now?

The ratio is about 80:20,mainly in respect of dining and panel products

b) What are the challenges in marketing and production to switch to CKD products?

- Decisions by customers on whether to ship based on CBU or CKD are invariably dependent on freight cost increases against the labour cost of assembling them in USA, including the general expectation of CKD products
- CKD products enable the Group to automate its assembly lines as the products can be homogenously grouped while the packing line can be standardised

23. "The Group relies heavily on sub-contractors to provide certain labour-intensive services in order to mitigate the risk of labour shortage" (page 10 of AR)

Don't the subcontractors themselves also face labour shortages?

Yes, the sub-contractors also face labour shortages. However, there are over 1,000 sub-contractors in Muar area alone. The Group currently uses less than 50 sub-contractors & evidently there are others the Group can leverage on. The availability of a large pool of sub-contractors partly mitigates the labour shortage challenge

24. With the hike in minimum wage, what is the additional cost incurred on per month basis? What is the percentage increase in total employee cost?

    Based on the current headcount and production level, the additional increase in wages, overtime and allowances, i.e., collectively payroll cost, is estimated at RM1 million per month. The percentage increase is about 5%

25. The US is experiencing high inflation and economic uncertainty. Does the Group see softening of demand from the US market?

    Demand from US is seen to soften gradually. Inflationary pressures currently experienced in US have curtailed the purchasing power of their people. The high freight charges faced by customers, coupled with high stockholding they have been maintaining, have resulted in relatively lower orders received from them

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26. The latest quarterly report mentions that "the deferment of shipments by customers led to a lower volume of goods shipped“

a) What is the amount of shipment held up as a result?

About 7% to 8% in value of the goods were held up

b) Does it mean the Group had to go slow on production given that finished goods inventory was building up?

The Group had been reducing overtime on certain production lines. The finished goods inventory level had been moderated compared to last year

c) What is the latest situation?

The situation has yet to see significant improvements

27. What are the total expenses involved for the proposed bonus issue exercise?

The proposed bonus issue exercise was estimated to cost the Company RM150,000.

28. Refer Note 27(a). There was an exceptionally high amount of inventory written down of almost RM4.5 million.

What were the reasons?

The write-down was mainly due to slow-moving inventory in certain hardware and veneer arising from lack of repeat orders for certain models of finished goods

29. What are the annual CAPEXs for FY22 & FY23? What are the major spendings?

The annual CAPEX straddling over FY22 & FY 23 is budgeted in the range of RM15 million to RM20 million, with the bulk being construction of factory & procurement of plant, machinery & equipment

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WE HAVE COMPLETED THE Q&A SESSION FOR QUESTIONS RECEIVED BEFORE THIS AGM