LII HEN INDUSTRIES BERHAD (301361-U)

29th Annual General Meeting

Question & Answer Session

Questions from Participating Shareholders

Questions from Minority Shareholders Watch Group ("MSWG")

OPERATIONAL & FINANCIAL MATTERS

1. The Group began to experience a slowdown in orders from May 2022, and since then, orders have been sluggish, primarily due to US retailers halting orders and reducing inventories in anticipation of an economic slowdown (page 6 of AR2022).

a) With the Group's recent 1Q23 financial performance falling below analysts' expectations, is the Group anticipating a continuation of the slowdown in orders throughout 2023? What is the Group's outlook for the remainder of the year, particularly in terms of sales and profitability?

Management's Response

Based on revenue of 1Q23, April 23 and May23, the Group's sales performance is improving as compared to 4Q22. We anticipate the Group should be able to maintain the sales level throughout 2023.

The Group views the overall global economy to remain challenging and uncertain throughout 2023. As such, we remain cautious in making major decisions and barring any unforeseen calamities locally or globally, for example escalation of the ongoing war between Ukraine and Russia and the geopolitical tensions between the USA and China, including their proxies, and the Board is of the view that Group would remain profitable for financial year 2023.

b) How has the Group prepared for a possible further reduction in demand throughout 2023?

Management's Response

To address possible further decline in demand, the Group has, amongst other measures, participated in furniture exhibitions and conducted oversea trips to major customers. We believe such measures will put us in a firmer footing to

(i) monitor market trends;

(ii) strengthen customer relationship; and

(iii) collaborate with industry partners in diversifying product offerings.

In such challenging times, the Group will also focus on cost rationalisation and optimisation by improving operational efficiency, reducing production costs, and negotiating for better terms with key suppliers.

The Board is cognizant of the need to maintain financial stability to weather the storm in these tough times and, with a solid balance sheet, we should be able to do that.

2. The Group continued to upgrade its machinery and equipment to improve production efficiency and reduce dependence on workers in its production operations. During the year, the Group invested about RM3 million in automated machinery (page 5 of AR2022).

a) How has the Group's investment in automated machinery improved production efficiency so far? Are there quantifiable metrics to demonstrate this improvement?

Management's Response

The efficiencies gleaned from automation of processes encompassed the following:

(I) The Automatic Single Side Thermo Oil Rolls Laminating line encompassed the following:

- The lamination speed increased from 20 metres per minute to 30 metres per minute;
- Reduction in number of operators from 8 to 2;
- With CNC control, the spacing between boards during the lamination process has been reduced from 70-100mm to 5-20mm;
- As both the feeding and receiving are automated, the need for manual operation and ensuring stable production speed has been eliminated; and
- Reduction in manual operation leads to decrease in occurrence of quality issues.

(II) CNC Drilling Machine

- The hole position can be recorded in the machine back-up, thereby eliminating the need for manual and time-consuming machine debugging; and
- Reduction in processing steps reduces manpower by 2 persons.

(III) Board Clamping Machine

- Reduces manpower required of board handling; and
- Reduces the risk of board scratches due to manual handling.

(IV) Vibration Knife Cutting Machine

- No custom-made knife mould is required for cutting different types of back panels; and
- One person can safely complete the production.

b) What new technologies have been adopted to enhance operational processes?

Management's Response

The new technologies are:

- **Fully automated lamination technology;**
- **Intelligent vibration knife cutting technology for board;**
- **CNC drilling technology;**
- **CNC panel cutting technology;**
- **Automated edge banding technology; and**
- **Automated leather cutting machine.**

c) What percentage of the Group's production processes are currently automated? Given the labour-intensive nature of the furniture manufacturing industry, what would be an optimal percentage for process automation?

Management's Response

The investment in machinery of about RM3 million was mainly incurred by EF Furniture Sdn Bhd (EF), a subsidiary mainly involved in the production of panel-based products. The percentage of automation in EF is about 25%.

The optimal percentage for automation for EF is 85%. However, based on a "cost-benefit" analysis, full automation might not be viable at this moment. More details and data would need to be collected and analysed further. The different product assortment also present challenges for full automation.

3. The Group's total workforce was lower at 2,497 in 2022 compared to 2,860 in 2021 (page 5 of AR2022).

a) Was the decrease in headcount due to challenges in sourcing workers or was it attributable to a reduction in production?

Management's Response

Both, but the current situation is mainly due to soft demand from the market.

b) How does the number of foreign workers compare to local workers? What would be the ideal workforce size to achieve optimal production efficiency and capacity?

Management's Response

The ratio of number of foreign workers compared to local workers is 70:30. The ideal workforce to achieve optimal production efficiency and capacity is about 3,500 workers.

c) What is the anticipated increase in labour costs for 2023, considering the adjustment to minimum wage and amendments to the Employment Act?

Management's Response

The minimum wage was mandated for compliance on 1 May 2022 and the amendments to the Employment Act took effect on 1 January 2023. Based on present headcount and adjustment to the number of working hours from 48 hour to 45 hour per week, the anticipated increase in labour cost for 2023 is about RM5 million a year or 9% of the total wages.

d) What proportion of the Group’s manufacturing activities are outsourced to subcontractors? How do the costs of outsourcing compare to internal manufacturing?

Management’s Response

About 45% of the Group’s manufacturing activities are outsourced to subcontractors. While the cost is higher compared to internal manufacturing, the use of subcontractors enables the Group to do more value-added processes and reduce the risk of idle or non-productive time during seasons of low orders.

4. What were the key drivers behind the 43% year-on-year revenue growth from Asia, which amounted to RM47.5 million in 2022 (page 131 of AR2022)?

Management Response

The key drivers for the 43% y-o-y growth from Asia were from Philippines and Singapore, augmented by some local sales.

Corporate Governance Matters

1. Practice 5.9 of the Malaysian Code of Corporate Governance (MCCG) stipulates that the board comprises at least 30% women directors.

Currently, there are no women directors among the eight board members of the company.

The revised Main Market Listing Requirements (MMLR) mandate the appointment of at least one-woman director on the board by 1 June 2023.

According to the company's Corporate Governance Report, the board has plans to appoint a woman director shortly after the upcoming AGM on 15 June 2023.

a) Please provide an update on the board's progress in appointing a woman director as mandated by the MMLR. Has a woman director been identified for the position, and if so, what is the expected timeline for the appointment?

Management's Response

The Board is aware of this stipulation in Bursa's Main Market Listing Requirements well before the mandatory date of 1 June 2023. It must be appreciated that onboarding of any Board member requires rigorous efforts to be undertaken by the Nominating Committee deploying the Group's Policy on Fit and Propriety in selecting suitable candidates. Moreover, the Nominating Committee had to take note of the findings from the Board's annual process in assessing the Board, Board Committees and individual Directors. One of the findings was the need to onboard a woman Independent Non-Executive Director with specific skillsets, i.e., legal expertise, as current Board skills matrix revealed a dearth of such talents. On 2 June 2023, the same day that the Company received a reminder letter from Bursa regarding the extended timeline till 1 September 2023 regarding woman Director, the Nominating Committee met and interviewed a woman candidate, who was introduced by an external source. The Committee has recommended the candidate to the

Board to fill casual vacancy. The Board will be deciding after today's AGM to proceed with the appointment. Stay tuned for the announcement.

b) In addition to appointing at least one-woman director as per the MMLR, what measures are being taken to achieve the recommended 30% women representation on the Board as stipulated by the MCCG?

Management's Response

In the Company's Corporate Governance Report 2022, the Board explained that "The Board strongly advocates Board diversity as a truly diverse Board will include and make good use of differences in skills, regional and industry experience, background, gender, age, ethnicity and other qualities of Directors such as the candidates' competency, character, time commitment, integrity and experience in meeting the Company's needs. These diversities are considered in determining the optimum composition of the Board and, whenever possible, should be balanced appropriately.

While the Board does not have any gender diversity target in its Diversity Policy, the Board believes that it will benefit from having at least a woman Director by way of contributing diverse insights and perspectives on a matter deliberated at Board level. As such, the Board has already mooted plans to include a woman Director shortly after the forthcoming AGM of the Company, scheduled in June 2023."

As explained above, the Board does not have and does not intend to set any targets for gender in its Diversity Policy and hence has no plans to meet the 30% target as espoused by the MCCG 2021. The inclusion of a woman Director which will take place following today's AGM will, in the Board's views, fulfil the intended outcome of "Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights".

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

Questions :

1. Did LIIHEN have direct or indirect supply to Nasdaq BBBY? if yes, what is the total affected in RM or USD?

Management's Response

LIIHEN supplied goods to Bed Bath & Beyond (BBBY) through an agent. The total amount shipped from Jan 2022 – July 2022 was about USD 500,000. All proceeds were collected. There were no dealing with BBBY after July 2022.

2. Does LIIHEN has any plan to diversify furniture sales to other country beside USA market?

Will LIIHEN start to build smart furniture also? will the price range be within reach of mass market?

Management's Response

LIIHEN always has plans to diversify our markets. Please refer to Statement on Management Discussion and Analysis – Manufacture of Furniture (AR page 5) and Note 24- Primary geographical markets (AR page 131) for further details.

One of the key features of smart furniture is the integration of internet of things (IOT)such as USB charging port, lighting sensor, etc. We will not hesitate to incorporate such features if there is specification or request from the buyers.

3. AR Page 82 Note 2(c) - Land held on lease less than 50 years is described as a short lease.

(a) Is this classification in line with MFRS? Why the treatment of leasehold land is different compared to other leases (Page 94 - Short-term leases have a lease term of 12 months or less)?

Management's Response

Under the Group's policy, leasehold land which have unexpired lease term of 50 years or less individually are be classified as short-term leasehold land. As regards to AR page 94, the short-term leases referred to finance lease entered for lease term of 12 months or less and with low value and the Group has elected not to apply the MFRS 16 on these short-term leases.

(b) Page 115 Note 10 states that these "short-term leasehold land" has a lease term of 60 years, which contradicts with the Group accounting policies. Why?

Management’s Response

The original lease terms of the Group’s leasehold lands were 60 years.

The Management takes note on the comment and will remove the term “short-term” for leasehold land in future reporting to avoid confusion.

4. AR Page 105 Note 5 - What does the remaining capital work in-progress RM8.7 million comprise of?

Management's Response

The capital work in progress of RM8.7 million mainly consisted of the following items:

(i) RM7.9 million, representing 95% of land purchase, pending infrastructure from the vendor; and

(ii) RM0.8 million represents earthworks for factory building.

5. AR Page 119 Note 16(a) - What is the additional tax assessment for YA 2015 to 2019 of RM687k about? Is there any tax penalty arising from the assessment?

Management's Response

The additional tax liability of RM687k was due to certain portion of sales which were disallowed to claim for Increased Export Allowances for YA 2015 to YA 2019. In Management's perspectives, those sales were meant for exports. However, IRB viewed differently as the export sales were through a local sales agent.

The Management through discussion and negotiation, managed to obtained approval from IRD to waive the tax penalty.

6. AR Page 120 Note 16(b) - Please explain how to split income tax expense, which is a Profit or Loss item, into current and non-current.

Management's Response

Note 16 (b) - the Current portion is related to tax expense for FY ended 2022, whereas the Non-Current is related to over or under provision of tax for prior FY ended 2021.

Going forward, Management will disclose as "current year" and "prior year" for better clarity.

7. AR Page 120 Note 16(c) and Page 121 Note 16(d) - Items available to offset future taxable profit has increased by RM3,572,333. If this number is multiplied by 24% tax rate, the deferred tax not recognised during the year is RM857,360, but the reconciliation shows only RM510,680. Please explain.

Management's Response

The deferred tax asset not recognised, RM510,680 represents net movement from temporary differences of unused allowances, tax losses and property, plant and equipment.

Please refer to page 129 Note 22 for the net deferred tax assets components.

8. AR Page 131 Note 24 - The revenue breakdown for Asia and Oceania is different from Page 158 Note 34(c). Is there a rounding issue?

Management's Response

Yes, due to rounding issue.

9. AR Page 155 Note 34(b) - The RM27.8 million revenue from others segment is generated from external or internal? Why is the amount shown as revenue from external customer and then the same negative amount is shown under inter-segment revenue (in which per Page 157, the negative amount is actually the inter-segment elimination)?

Management's Response

The RM27.8 million is dividend received from subsidiary companies. Going forward, we will disclose as "Revenue" instead of "Revenue from external customer" to avoid confusion.

10. AR Page 158 Note 34(d) - Could management share who are the major customers A, B and C? Why is there no revenue contribution from Customer A during the year? What are the plans moving forward to generate more revenue?

Wish the management is in good health always and thank you for your time in answering the questions above.

Management's Response

In view of confidentiality to maintain a strategic position of the Group, the Management is not at liberty to disclose the identity of customers. This approach is consistent with what the Listing Requirements provide. Our disclosure is also in line with MFRS 8 Operating Segments, Paragraph 34 where "the entity need not disclose the identity of a major customer".

LII HEN INDUSTRIES BERHAD (301361-U)

29th Annual General Meeting

We are only required to disclose major customers who generated revenue equal or more than 10% of the Group's total revenue. As sales generated from Customer A had decreased to 9% during the year, no disclosure was made.

The Management proposes that for FY2023, we will furnish reasons on why the number of such customers varies.

In order to generate more revenue in this challenging market conditions, the Group will actively participate in more exhibitions and trade fairs, enhance the Group's product quality, and offer innovative product designs with more competitive pricing.

We thank you for your questions and wishing you good health too.

11. What makes the revenue decrease? Why did the current borrowings decrease while the non-current borrowings increase?

Management's Response

The revenue decreased mainly due to uncertainty in the general economic prospects of the countries to which we export. The soft economy and weak consumer sentiments due to persistent high inflation and interest rates in developed countries had damped the demand for the Group's products.

The current borrowings decreased was mainly due to the lower bankers' acceptances drawdown in year 2022 compared to year 2021 (2022: RM988,000, 2021: RM21.1 million). The non-current borrowing increase was due to term loans totalling RM12.5 million which were drawn down to finance the construction of factory and for the progress payments for the purchase of a piece of leasehold land.

12. In 2022 AGM, the Management mentioned ""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"

a) Is the assessment still valid for 2023?

Management's Response

The pre-tax margin might reduce 1% to 2% in view of the soft market condition.

b) What is the expectation for FY2024?

Management's Response

The Management views that market should improve in FY 2024 should inflation cool off interest rate cuts begin in U.S.

13. In many quarterly reports, the management has highlighted the Group's ""largely controllable cost structure"".

a) What percentage of cost structure can be easily trimmed if customer demand is insufficient?

Management's Response

About 70% of the costs are variable. Subcontractors make up about 12% of variable costs and about 36% of the operation of the Group are on leased basis.

b) What level of revenue is needed to support a pre-tax margin of 7% to 9% (ignoring forex)?

Management's Response

A revenue of RM50 million per month (no fluctuation of forex) should support a pre-tax margin of 7% to 9%. Again, this is also dependent on product-mix.

c) **What is the level of revenue that, below the level, the Group may be loss making? How likely is this scenario?**

Management's Response

If the sales level is USD6.6 million per month or below, the Group will risk losses. Currently, it is unlikely to occur.

14. In 1Q23 report, the management mentioned "rationalisation on the use of resources, especially available workforce … to remain profitable"

a) So far what are the rationalisation steps the management have taken?

Management's Response

The rationalisation steps include:

i) Automation repetitive tasks and streamline processes using technology; and

ii) Outsourcing and contingent workforce, outsourcing certain non-core functions to meet fluctuating demand.

b) Is retrenchment of local and/or foreign employees likely?

Management's Response

Unlikely at this moment.

15. Past annual reports mentioned top three customers. However, in 2022 there were only two major customers that made up >10% revenue each.

a) Has the Group lost substantial sales from the other major customer?

<u>Management's Response</u>

The Group has not lost the substantial sales from the other major customer. Please refer to Question 10 for more details.

b) What are the current situation and outlook?

Management's Response

The current situation is still fraught with uncertainty, especially with the geopolitical tensions between US and China, including their respective allies, which have yet to show signs of abatement. And this includes the ongoing Russo-Ukrainian conflicts.

16. The total workforce was 2,497 by 2022 year end. The level is close to 2016 (about 2,400).

a) Does the management foresee business volume to drop to 2016 level?

Management's Response

We should be able to maintain or even perform better than 2016 level.

b) What is the latest workforce number?

Management's Response

Currently, the workforce is 2,220 workers.

c) Is the level optimized in view of the sales outlook?

Management's Response

The number of head-count is in line with the current sales level.

17. During and after the 2008 Global Financial Crisis, the Group continued to increase revenue and profit despite heavy exposure to the American market.

a) Can we expect the same this time despite the ongoing US housing market slowdown?

Management's Response

U.S market will continue to be the main/major market for the Group. Nonetheless, H efforts are required from Management to explore other markets for appropriate diversification of clientele geographically.

b) What are the similarities and differences that you see between now and 2008?

Management's Response

The similarities are:

i. Economic uncertainty;

ii. Consumer spending patterns; and

iii. Supply chain disruptions, etc.

The differences are:

i. Causes

ii. Digital transformation, etc.

18. Capital Expenditure

a) What is the expected CAPEX for 2023 and 2024?

Management's Response

The expected CAPEX for 2023 is the factory building of RM12 million. No CAPEX for 2024 has been proposed yet pending more visibility in the marketplace and this stance is consistent with the cautious approach adopted by the Board and Management.

b) Where will it be spent?

Management's Response

As mentioned above – factory building, and the amount will likely be disbursed end of this year or next year.

c) Will management reduce the pace of investment in view of soft market demand?

Management's Response

Certainly, the decision on investment will highly depend on the global economic conditions.

19. How many containers were shipped in 2021, 2022 and year-to-date of 2023 respectively?

Management's Response

The containers shipped in 2021, 2022 and 2023 (Jan- April) were 12,914, 10,652 and 2,962 respectively.

20. Production Capacity

a) What is the current production capacity?

Management's Response

The current production capacity is around RM100 million per month.

b) What is the recent utilization?

Management's Response

The current utilisation is about 55%-60%.

21. **Is the new factory for EF Furniture Sdn Bhd fully completed and operational by now?**

If yes, the new capacity has not been updated in page 4 of Annual Report which mentions ""the operational sites occupy about 3.05 million sq. feet of covered space"

Management's Response

The new factory of EF Furniture Sdn Bhd has been fully completed and has started operation at year end. The build-up area of the new factory had been included in the 3.05 million square feet of covered space.

22. Refer to the Corporate Structure in page 14 of Annual Report.

a) Do subsidiaries such as FDSB, EFF, CTHH specialize on different product types, or they have overlapping product ranges?

Management's Response

FDSB is involved in manufacturing of bedroom set, CTHH in dining set and EFF in the manufacturing of panel-based products.

b) If overlapped, how do you make the decision on which factory to produce, and whether to produce in house or subcontract?

Management's Response

No overlapping. They manufacture different product line.

c) Any plan to reorganize the structure given the subsidiaries are 100% owned?

Management's Response

No immediate plan at this moment.

23. Should you resume physical AGM next year, please make it a hybrid AGM as its not convenient for some shareholders to travel to Muar.

Management's Response

The Group will consider conducting a hybrid AGM next year.

24. Can you provide more details on the computer software write-off mentioned in Note 9, page 114 of Annual Report?

Management's Response

The computer software is a payroll system which was capitalised previously as an intangible asset.

25. Note 26(b) shows that directors' emoluments have increased to RM16.5m in 2022 from RM11m in 2021, in line with better business performance.

(a) What percentage of directors' emoluments is made up of performance-based payment?

Management's Response

About 54% of Directors' emoluments were made up of performance-based payment and this solely relates to the Executive Directors.

(b) What factors are considered in the performance payment, in order to ensure alignment with shareholders' interest?

Management's Response

The performance is based on the profit level achieved against the target.

26. Refer Note 31b, page 139 of Annual Report. Rental paid to related party NNST Capital Sdn. Bhd. has increased to RM462k from RM288k a year ago.

Has the rented floor space increased significantly? Otherwise, why has the rental increased by 60% in just one year?"

Management's Response

Additional factory was leased in June 2022 at the monthly rental of RM24,810 from NNST Capital Sdn Bhd.

LII HEN INDUSTRIES BERHAD (301361-U)
29th Annual General Meeting

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