LII HEN INDUSTRIES BERHAD

30th Annual General Meeting

(199401015681/301361-U)

Question & Answer ("Q&A") Session

Questions from Participating Shareholders

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Questions from Minority Shareholders Watch Group ("MSWG")

OPERATIONAL & FINANCIAL MATTERS

1. As one of the leading exporters to U.S, the Group's operation was affected by the decline in consumer demand since 2022. The U.S importers, distributors, wholesalers, & retailers had been cautious in their stockholding level to avoid overstock situations, with the onset of impending economic downturn further exacerbating business sentiments. The high inflation & falling discretionary incomes deterred consumers to purchase high ticket items like furniture. As a result, all the Group's products registered negative growth in the current year under review (Page 4 of Annual Report 2023/AR2023).

Management's Response

a) **To what extent will the abovementioned factors adversely impact the growth of LHIB's products in FY2024?**

The abovementioned factors will continue to have a negative impact on the growth of LHIB's products in FY 2024. The soft demand across the home furnishing industry may possibly lead to a decrease in incoming orders for the Group.

b) **What are the current orders for the Group's products? Are they lower or higher than last year?**

In Q1 2024, the Group recorded higher revenue compared to Q4 2023. Nevertheless, with sluggish external demands due to the persistent high interest regime, soft housing market & prevailing economic uncertainty, incoming orders for the Group's products seem subdued in Q2 2024.

2. **The Group worked closely with customers to develop its product offerings to suit the changing trends and customer preferences, by considering the evolvement in business landscape and shift in customer demographics. The advertised in The Exhibition Showcase 2023 Edition and Malaysia Furniture Directory & E-book, participated in the MIFF 2023 Exhibition, attended the High Point Show and made business trips to major buyers to enhance the Group's market presence (Page 49 of AR2023).**

Management's Response

a) **Since the Company has worked closely with customers, what are their feedback on products?**

Feedback from the buyers has been generally positive, particularly on product quality & design. Overall, they are satisfied with the improvement the Group has achieved & the samples exhibited have elicited positive response from the customers.

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Management's Response

b) **What sort of products are being developed by the Group in the pipeline, and are they a high-margin product category? Are the products already in the offering and drawing interest from buyers?**

The Group's products comprise bedroom set, solid dinettes, office furniture, sofa sets, utility shelves & items of occasions. In view of the current market conditions, the products developed are generally medium to low price items.

Product development is an on-going process based on market demand & market trends. One of the subsidiary companies is currently developing easy-to-assemble products, targeting the younger generation.

Management's Response

c) **What is the outcome of the Group's abovementioned initiatives, especially business trips to major buyers to enhance the Group's market presence? Has the effort been successful in improving the Group's market presence?**

The business trips to major buyers were aimed to enhance the Group's market presence in the following ways:

- **Strengthening relationships – face-to-face interaction with customers builds strong relationship & demonstrates commitment and trust to garner deeper insights into buyers' needs and preferences**
- **Showcasing products**

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Management's Response (cont'd)

- **Market intelligence – gathering feedback to provide valuable insights into market trends and assessing market demands**
- **Addressing issues promptly – issues& concerns that are resolved expeditiously invariably reinforce customers' trust & satisfaction.**

The Group views that maintaining a close rapport with customers is vital, particularly during these challenging times.

3.Other Expenses & Finance Costs

a) **The Group's other expenses increased significantly to RM1,917,948 in FY2023 from RM973,232 in FY2022 (Page 91 of AR2023). This represents a 97.07% year-on-year increase.**

   i. **Which expenses in the other expenses contributed to the sharp increase in the Group's overall other expenses in FY2024? Are they one-off or recurring expenses?**

   ii. **Are these expenses expected to continue rising? If yes, what is the mitigation plan to reduce these expenses in the future?**

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Management's Response

i. The other expenses of RM1,917,948 mainly comprise unrealized loss on foreign exchange of RM1,902,973

ii. The expense arose from the year-end conversion of an asset which was originally denominated in foreign currency to functional currency. The unrealized loss for the foreign currency arises when the USD weakens against RM at financial year-end closing.

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b) **Finance costs rose to RM1,370,989 in FY2023 from RM985,379 FY2022 (Page 91 of AR2023), representing an increase of 39.13%.**

Does the Group expect the finance costs to remain at the same level or higher in FY2024?

Management's Response

The Group expects finance costs to remain at about the same level as in FY 2023.

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Sustainability Matters

4. **The Group has not subjected the pertinent information furnished in the Sustainability Statement to any independent review by an external assurance provider or its internal audit function (Page 49 of AR2023).**

Bursa Malaysia requires Companies to subject their Sustainability Statements to an internal review by its internal auditor or independent assurance performed in accordance with recognized assurance standards (Main Market Listing Requirements (MMLR), Practice Note 9, Paragraph 6.2 (e) (i) (ii)).

Please comply with MMLR in the next reporting cycle.

Management's Response

We refer to Practice Note 9 Para. 6.2 (e)(i)(ii) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad which states:

In making the Sustainability Statement, a listed issuer must include disclosures on the following, a statement on whether the listed issuer has subjected the Sustainability Statement to:

- **Internal review by its internal auditor; or**
- **Independent assurance performed in accordance with recognized assurance standards,**

to strengthen the creditability of the Sustainability Statement, and if so, the subject matter(s) & scope covered. In addition, for independent assurance, the conclusions must also be disclosed.

Management's Response (cont'd)

Based on the above provisions of Practice Note 9, evidently an internal review by the internal audit function OR by an independent assurance provider is NOT MANDATORY. The PN 9, however, states that IF an internal review by the IA function OR an independent assurance provider was conducted, the Sustainability Statement MUST disclose the subject matter(s) reviewed & the scope covered and, in respect of an independent assurance review conducted, the conclusions thereof must also be disclosed. Nonetheless, we have, in compliance with this PN 9, disclosed a Statement of Assurance (set out on page 49 of the Annual Report) asserting for the attention of shareholders that the Sustainability Statement was NOT subject to any independent review by an external assurance provider NOR the internal audit function of the Group.

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Management's Response (cont'd)

While it stands guided by the regulatory requirements, including any updates thereof which may ultimately mandate such independent review, the Board is of the view that it is currently sufficient to rely on Management's internal checks & balances to ensure the information disclosed fairly reflects the activities conducted & performance data pertaining to sustainability initiatives undertaken by the Group for the year under review.

Corporate Governance Matters

5. Practice 5.9 of the Malaysian Code of Corporate Governance (MCCG) states that the Board should comprise at least 30% women directors.

The Company has not adopted Practice 5.9 of the MCCG. The Company currently has one (1) female out of nine (9) Directors on the Board (Page 38 of CG Report), making up 11.11% of the Board. This composition is <u>far from the 30% threshold</u>.

However, its CG Report states that, among others, "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 (Page 38 of CG Report)."

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According to the Malaysia Board Diversity Study by the Institute of Corporate Directors Malaysia 1 , boards with at least one-third women representation correlate with 38% higher median ROE than boards with no women representation. A larger representation of women seems to suggest more inclusive boards.

With the abovementioned findings, does the Board intend to achieve at least one-third women's representation? If so, what plans, actions and timeframe should the Board take and set to accomplish this?

Management's Response

The Company on-boarded a female Independent Non-Executive Director on 14 June 2023, shortly after the Company's last AGM. Her appointment followed the annual assessment of Board skills matrix in early 2023, which identified a need to recruit a Director with legal background to meet the operational & strategic needs of the Group. Moreover, there was also a need to comply with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad which stipulate a minimum of one woman Director on the Board by 1 June 2023. While the Board is mindful of the benefits that may be realized from having a diversified Board composition with woman members, it has been the Board's stance to recruit members without any discrimination as to gender so long as the attributes of the candidates fulfil the Company's Fit & Proper criteria for directorship and augments the skills within the Board.

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Management's Response (cont'd)

Now that the Board has appointed a woman director as its member, it fulfilled its assertion in the CG Report that, "the Board believes that it will benefit from having at least a woman Director by way of contributing diverse insights & perspectives on a matter deliberated at Board level".

The Board is of the view that there is no "one-size-fits all" in any Board composition to meet the Group's corporate objectives, be it on skillsets, age, cultural background or gender, much less setting a gender diversity target. It must be appreciated that the nuances, culture & chemistry of each Board invariably differ from another. As such, the Board has decided NOT to adopt any target on Board gender diversity for the time being, and this stance has been clearly articulated in the CG Report 2023. Of course, the Board will not hesitate to revisit this matter as circumstances dictate in the future.

6. Long-Serving Independent Director

The Company is seeking shareholders' approval to retain Mr. Chan Wah Chong (Ordinary Resolution 10), who has served as an Independent Non-Executive Director (INED) of the Company for a cumulative term of exceeding nine (9) years, to continue to act as an Independent Non- Executive Director of the Company until the conclusion of the next AGM (Notice of AGM dated 29 April 2024). He was appointed as an INED of the Company on 12 September 2013 (Page 16 of AR2023).

As his tenure has now exceeded ten (10) years, what is the Company's plan for identifying a replacement?

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Management's Response

The resolution to seek shareholders' approval for the continuance in office by Mr. Chan Wah Chong as an Independent Non-Executive Director ('INED') is pursuant to Practice 5.3 of the Malaysian Code on Corporate Governance. Over the last 10 years, Mr. Chan has garnered invaluable experience with the Group & has been contributing significantly to the Board in his role as an INED as well as the Chairman of the Audit Committee and Risk Management & Sustainability Committee.

On the Board of the Company are 4 other INEDs, 2 of whom, namely Mr. Chik Chan Chee @ Cheok Chan Chee & Mr. Lee Min On, are members of the Malaysian Institute of Accountants, and, accordingly, are eligible to assume the Chair of the Audit Committee in meeting the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Management's Response (cont'd)

Moreover, Mr. Lee Min On has extensive experience as an internal auditor & enterprise risk consultant as disclosed in his profile on page 18 of the Annual Report. With such attributes & experience, Mr. Lee can readily assume the Chair of the Risk Management & Sustainability Committee. Premised on these, the Board is of the view that there is already succession readiness when Mr. Chan ultimately steps down as an INED or is re-designated as a Non-Independent Non-Executive Director, as the case may be, upon reaching his 12-year tenure as INED of the Company.

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

Questions :

1. Please reconsider giving door-gift like TNGo as Token of appreciation.

Management's Response

The Board is of the view that paying out dividends on a consistent basis based on the performance of the Company is the most beneficial way of rewarding shareholders..

2. Are there any expansion plans for the Company in the next three years? If yes, what kind of expansion planned?

Management's Response

The Company has no plans for expansion currently apart from what has been committed. Given that the coming years are expected to be challenging, we will focus on consolidating internal resources for more effective management, in addition to rationalizing spendings to cope with the sluggish market and sustain profitability. Nonetheless, the Board will consider the possibility of purchasing certain equipment, with the view of automating identified processes to reduce dependencies on labour.

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3. **How can company ensure competitiveness with other countries and other manufacturers? Does Company have any unique strategies?**

Management's Response

To harness competitiveness against other countries and manufacturers, the Company is adopting the following strategic imperatives:

a) **Innovation and R&D investment Regularly introduce new products, services or processes and invest in R&D to meet market demand and customers' preferences.**

Management's Response (cont'd)

b) **Quality and Efficiency**

Maintain a portfolio of high-quality products and services and streamline operations for better production efficiency and cost savings.

c) **Customer-centric and focus**

Provide exceptional customer services, whether pre-sales or after-sales, to meet the needs of customers and heighten customer satisfaction.

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Management's Response (cont'd)

d) Global Expansion

Expand into new geographical markets to reduce dependence on a single market by actively participating in international exhibitions.

e) Digital Transformation

Utilize online platforms and digital marketing initiatives to reach a broader audience.

f) Sustainability and Corporate Responsibility

Implement environmentally friendly practices to appeal to eco-conscious consumers.

4. **Trade receivables past due but not impaired increased 70% to RM21.5mil, and impairment increased 349% to RM472k. What is the reason for the increase in trade receivables past due and impaired? What is the step taken to mitigate such credit risk?**

Management's Response

The increase in the trade receivable past due but not impaired was mainly due to slower customer payments arising from challenging business environment in the markets they operate.

Some customers have requested for longer credit term of 60 days or 90 days instead of the normal term of 30 days

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Management's Response (cont'd)

The increase in impairment to RM472k was due to 50% provision of doubtful debts for a local customer. The customer is a long-standing customer with the Group and an agreed plan has been drawn up for a fixed monthly repayment to relinquish the debts.

Steps are being taken to mitigate the credit risk and they are:

a) **Carrying out background check on the credit standing of the customers;**

b) **Considering taking up Trade Credit Insurance to mitigate some credit risk;**

c) **Constantly monitoring the payment pattern of the customers.**

5. **Unutilised tax allowances and tax losses RM21.8mil (including RM3.2mil to be utilized within 5 years). Is this related to the subsidiaries which ceased operations during the year under review? What is the step taken to utilize these?**

Management's Response

The unutilized tax allowances and tax losses of RM21.8 million were made up of (refer AR 15(d)):

	RM'000
Unused capital allowance	403
Unused agriculture allowance	8,812
Unused tax losses	12,550

Management's Response

The RM3.2 million of the unused tax losses which can be utilized within 5 years were related to losses incurred in the plantation division. The unused losses of RM3.2 million can be utilized when the plantation division started to generate profits. The unutilized tax losses related to a subsidiary which ceased operation during the year under review was RM3.1 million.

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6. Lii Hen Plantation Sdn Bhd have an emphasis of matter on its ability to continue as going concern in foreseeable future. what is the management's plan for plantation division?

Management's Response

As mentioned in the MD&A, only about 30% of the trees are of 8 to 9 years old but unfortunately are not in contiguous lots due to damage to trees caused by elephant attacks in previous years.

The tree tapping is only economically viable when 70% of trees are above 6 years old.

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Management's Response

The Company is planning the tapping of trees in 2025 or 2026 if the economics justify it. Meanwhile, we shall maintain the rubber plantation and ensure that the trees continue to increase in girth and biomass for future harvesting of rubber wood.

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7. What is the current production capacity and utilization?

Management's Response

The Group's monthly production capacity is estimated at RM85 million while the current utilization is at 70% of the installed capacity.

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8. How many containers were shipped in 2023 and year-to-date 2024?

Management's Response

The number of containers shipped in 2023 averaged in the region of 10,000 containers of various sizes housing a variety of products.

Number of containers shipped year to date April 2024 (close to 3,000 containers of various sizes housing a variety of products).

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9. In page 2 of AR, it mentions that top three major customers made up not more than 15% of total revenue. But in Note 33(d), page 186, top three customers contributed RM270m in revenue (about 40% of FY2023 Group's revenue). Please clarify.

Management's Response

The Top 3 customers are made up of the following, with each customer contributing to less than 15% each to the Group's revenue for the year:

Customer A - 14.70%
Customer B – 13.5%
Customer C – 12.1%

Management's Response (cont'd)

Thanks for highlighting this apparent anomaly. We acknowledge that Page 2 of the Annual Report (i.e., the Management Discussion & Analysis) could have been better structured by including the phrase "individually of the Group's total revenue". The disclosure in the MD&A was meant to align with the financial statement disclosure on segmental information.

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10. **Note 12(a)(ii) (page 125) has shown deteriorating past due receivables.**

Do you expect higher impairment in 2024?

How significant and what mitigation in place?

Management's Response

Due to prevailing uncertainty in the global market and the current challenging business landscape, the Group is of the view that impairment on trade receivables in 2024 could possibly be higher than 2023, although the impairment provision would likely be less than 1% of the Group's revenue based on the existing credit measures implemented.

Management's Response (cont'd)

The Group has been implementing the following steps to mitigate credit risk, even as it seeks to enhance the revenue base:

a) Conducting stringent background checks on the credit standing of customers;

b) Considering the financial viability of acquiring Trade Credit Insurance to mitigate certain credit risk; and

c) Continuous monitoring of payment pattern and trends of customers.

Other possible measures that could be resorted to include the taking of legal recourse.

11. Note 32 (page 176) shows that two US customers constitute more than 34% of Group's trade receivables.

Note 32c (page 186) shows that Customer A and Customer B made up of only RM189m (28% of revenue).

Do the larger customers enjoy longer payment term? Do you have collection problems with these major customers?

Management's Response

The larger customers have the same term as the rest. We have not encountered problems on collection from these 3 customers.

12. Plantation:

a) According to the 2016 Annual Report, 434 hectares have been planted with rubber trees since 2015, which is 9 years ago. Why by the end of 2023, up to 70% of the trees aged less than 7 years old (page 3 of 2023 AR)?

b) When will rubber tapping begin based on the latest projection?

c) What was the cumulative investment and spending on the plantation business over the years (including impaired amount)?

d) With hindsight, was it not very economical and necessary to own a rubber plantation?

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Management's Response

a) The reason is mainly due to high mortality rate due mainly to:

   (i) poor quality clones – budded stem specie and with fungus;

   (ii) Planting carried out during dry season, lack of rainfall; and

   (iii) 3 to 4 years trees planted were destroyed by wildlife (elephant and wild boars).

b) Rubber tapping is forecasted to begin end 2025 and beginning of 2026.

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Management's Response (cont'd)

c) **The cumulative investment on the plantation business over the years: Development of plantation infrastructure and biological assets stood at RM1.12 million and RM5.53 million, the impairment in 2015 was RM4.3 million.**

d) **The initial plan to involve in rubber plantation is for the supply of rubber-wood, the renewable material for the furniture industry as part of ESG initiatives.**

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13. The 2023 Consolidated Cash Flow Statement reported in 2023 Annual Report (page 94) is slightly different from the version in 1Q2024 quarterly report (page 4, column "audited preceding year").

For example, operating profit before working capital changes was RM92.466 million in the former, but RM91.913 million in the latter.

Management's Response

For the Q1 2024 report in the Consolidated Cash Flow Statement, the short-term lease of RM528,799 for the comparative year was reclassified from the Cash Flows From Operating Activities and Cash Generated From Operations (previously shown as separate items in the cashflow statement).

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14. Many GLCs have conducted hybrid AGMs this year. Would Liihen consider offering hybrid AGM next year?

Management's Response

The Board takes note of this and will consider the viability of having an AGM on a hybrid mode at the right time, for example the logistics and connectivity challenges in the locality, amongst others.

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