

LII HEN INDUSTRIES BERHAD

ANNEXURE 3-B - SUMMARY OF LIVE QUESTIONS RECEIVED VIA ONLINE QUESTIONS AND ANSWERS ("Q&A") BOX FROM SHAREHOLDERS AND PROXIES DURING THE ANNUAL GENERAL MEETING ("AGM") HELD ON 6 SEPTEMBER 2021 AND THE COMPANY'S RESPONSES THERETO

Questions:

1. How is the factory's worker vaccination progress? (Gan Kok Seng)

The Group participated in the Public-Private Partnership Vaccination Programme ("PIKAS") in August 2021 and by the end of September 2021, all workers should be fully vaccinated. Meanwhile, the Group continues to comply strictly with the Government Standard Operating Procedures ("SOP") as follows:

- i. Workers have to undergo RTK antigen tests every 2 weeks;
- ii. Separate quarantine room has been put in place for infected workers or those with close contact cases;
- iii. All workers & staff, including recruits, must be fully vaccinated before commencing work;
- iv. An Emergency Response Team has been set up to tackle crisis on Covid-19 & MCOs; and
- v. Wearing of masks at all time, observing social distancing, and regular sanitization of the workplace, hostel and office.

2. How is the impact of this MCO compared to MCO 1.0 last year? (Gan Kok Seng)

The FMCO enforced since June 2021 has severely affected the Group's operations, especially in the 3rd quarter of this year as compared to those under the inaugural MCO 1.0 on 18 March 2020. Sales for June 2021 amounted to 19%, July 2021 20%, August 21 20% of the Group's normal monthly sales given only loading activities were allowed for certain stipulated time with strict SOP enforcement. In view of the current lockdown which has lasted more than 3 months, we do not foresee any improvement to the Group's gross profit margin for the remaining period of FYE 2021.

With the higher rate of vaccination and the resumption of operation anticipated in the 4th quarter 2021, we are hopeful the Group's performance will recover, although slowly provided that there is no further disruption due to unforeseen circumstances or any new MCOs being instituted by the Government.

3. Lii Hen Group reported a realised loss on Foreign Exchange amounting to RM3.056 million in FY2020 compared to RM1,552 Million in FY2019 (page 130 of AR). Please explain the big increase in realised loss despite having forward foreign currency contracts to hedge against foreign currency exposures on certain percentage of budgeted sales (page 149 of AR). (Lew Tuck Wai)

The Group's policy and practice is to hedge in the range of 30% to 50% of contracts orders, allowing a buffer to capitalize on favourable movements in foreign exchange rates. With close and frequent engagements with our bankers, the Finance team reports to the Executive

Directors for direction and reports to the Audit Committee the movement of foreign exchange rates on a quarterly basis as to ensure the mechanism in hedging foreign exchange risk remains effective.

- 4. During 2020 AGM, Chairman Lee was concerned that virtual AGM may not be feasible due to unstable network connection in Muar. The experience of this meeting so far is very good. Can the board offer the option of hybrid AGM in future, so that shareholders who could not travel to the physical venue may still participate? (Ee Yih Chin)**

Thank you for that question. In response to Practice 13.5 promulgated by the Updated Malaysian Code on Corporate Governance 2021 on meaningful shareholder engagement, the Board will continue to leverage technology in conducting general meetings, even beyond the movement control order, where physical gathering may be permitted. This includes conducting either fully virtual or hybrid general meetings to enable a proper mechanism for members or proxies to fully participate in the meeting, including the ability to exercise their votes.

- 5. Lii Hen Group has been very successful since it commenced operations with almost all its manufacturing facilities concentrated in Muar, Johor. In the past 2 to 3 years, the Board has highlighted numerous challenges of operating in Malaysia, including the difficulty and increasing cost of labour, especially foreign workers and cost of operation. Has the Board considered investing in new manufacturing facilities in neighbouring countries to take advantage of lower cost of operations and ample workers? (Lew Tuck Wai)**

Labour shortage unfortunately continues to be the main issue faced by the furniture industry. To mitigate this, the Group works closely with our sub-contractors to ensure timely delivery of parts in accordance with production schedules and that the parts produced meet the quality standards or requirements. Moving forward, the key focus of the Group is to continue to strengthen our production efficiency through the adoption of new technologies (such as automation, as deemed economically feasible) to enhance operational processes in managing labour shortage challenges.

The Group has been rationalizing its operating costs through the implementation of cost-saving measures at product development stage to ensure cost effectiveness without compromising on the quality we have to maintain and sustain production efficiency at all levels with a clear view of minimizing wastage, as part of our ongoing sustainability imperatives to optimise resources.

- 6. Please advise how to vote. It seems we can't vote "against" the resolution? (Lee Ing Tiong)**

Shareholders and proxies are advised to submit queries or request for technical assistance via the dedicated contact number and/or email as outlined in the Administrative Guide to participate in the general meeting.

- 7. Hi, I would like to ask the Management any planning for the full automation on the production lines since the labour shortage issue is faced in the furniture line. (William Tung)**

The Group is constantly evaluating the possibility of automating certain manufacturing processes, taking into consideration the Cost-Benefit analysis to ensure it is a viable economic option and investment as a way forward. Among others, the Management has explored the viability of

having automatic wrapping lines with suppliers and manufacturers in Shanghai, China Mainland. Given that the costs far outweighed the benefits arising from full automation, Management has no choice but to set aside the proposal for the time being.

In fact, the Group has automated certain production activities, for example the finishing and painting processes. The Group outsources a significant portion of its manufacturing activities with an internal focus on final assembly and quality controls. Due to a myriad of models requested in customers' orders, automation in the assembly processes remains challenging. One of the competitive advantages of the Group lies in its flexible assembly line that can be quickly reconfigured to cater for changing models. The trade-off, unfortunately, is that these processes are not easily automated.

- 8. Dear Management, good job for the commendable result of the Group's financial result despite the pandemic. Will just like to ask: a) How has the FMCO enforced since 1 June 2021 impacted your operations? b) How have the raw material cost and rising transportation cost affected the Group's bottom line? c) What is the current utilisation rate of the Group's factories? (Bilson Chang)**

In addition to our response to Question 2 above, the Group seeks to optimize efficiency in the handling of materials to minimize wastages; sources for competitive prices from suppliers by negotiating and obtaining bulk and cash discounts; and strives for minimum down-time in the production lines to optimize utilization of installed capacity. The Group's products are sold on Free-On-Board (FOB) terms, thereby dispensing with freight charges as part of the Group's cost structure.

As for the utilisation rate, it was about 95% prior to the FMCO which was enforced on 1 June 2021.

- 9. The latest quarterly results for the 6-Months ended 30 June 2021 reported slight reduction in Inventories to RM132.292 Million. This figure is still high compared to the Inventories level as at FYE 31 December 2018 which amounted to only RM87.299 Million. Please provide an update on the latest value of Inventories of the Group and steps taken to reduce the Inventories level further. It generally takes an elapsed interval of 2 to 3 months for price adjustments to factor cost increase to customers. (Lew Tuck Wai)**

The Group's stock level was higher for the current year, largely due to:

- i. the decision to hold more raw material, especially wood/board, hardware and packing materials which are sensitive in tandem with prices of commodities, such as lumber, crude oil and paper as the Group anticipated there would be shortage and increase in cost of materials; and
- ii. shipment of finished products which were deferred due to the global shortage of containers.

The Management is mindful of this trend and has been taking pertinent measures to mitigate the Group's exposure to impairment risk.

10. Is the Company still considered beneficiary under China-US Trade War presently and future as we understand the pandemic now in South-East Asia has badly affected exports to US and European countries. (Joe Lim)

The ongoing China-US Trade War is in fact not a threat to the Group as compared to the FMCO enforced which has lasted for more than 3 months whereby the Group's operations have been severely affected.

11. In terms of raw material composition, which one has a higher composition - oak wood or pine wood? (investor smart)

The main raw materials used in manufacturing our furniture products are mainly wood that comprises solid wood, particleboard, veneers, MDF, plywood, pine wood and oak wood and other materials, like finishing materials and carton boxes which are sensitive to the prices of commodities such as lumber, crude oil and paper.

12. Will the average costs in 2021 continue to rise since there was very significant increase in 2020? (Joe Lim)

Although the costs are still trending on the high end, signs are showing some stabilization now with the Group taking pertinent measures, for example, inter-alia, buying materials in bulk to leverage the discount structure provided by suppliers; optimizing the use of materials to minimise wastages; and negotiating with customers to factor in price adjustments.

While we are generally able to pass down the price increase in raw materials to customers, it normally takes time, i.e., any price adjustments to customers to factor in the increase in the cost of materials will only materialize in 4 to 5 months following the increase in cost of materials.

13. Lii Hen pays dividend five times a year. What is the estimated administration cost for each dividend distribution? (Gan Kok Seng)

The administration cost for each dividend distribution is approximately RM20,000.

14. A few years ago, the Malaysian furniture industry benefited from trade diversion due to Sino-American trade tension. Is the trend still ongoing? However, do lockdowns in various production countries force US buyers back to China? If yes, will the trend persist? (Ee Yih Chin)

The trend of having diversion of orders by U.S importers from China to Malaysia will persist given high labor cost in China and perception of higher corruption risk in Vietnam. Hence, the Group expects the demand for its products to remain strong.

15. What is the current customer order lead time? What is the norm before the pandemic? (Ee Yih Chin)

The lead time (before MCO) was about 2 to 3 months whereas the current lead time is about 5 to 6 months, largely depending on the shipment schedule and availability of containers.

16. What was your utilisation rate of your facilities in Q1, Q2 and currently? (Caitlyn Joy)

All production activities in Q2 and Q3 were halted, save for Q1 where the utilisation rate was about 95% (after the lifting of Enhanced Movement Control Order on 29 January 2021).

17. Sensitivity of US\$MYR to your top and bottom line. How much will a 1% change in FX contribute to the top and bottom line lines? (Caitlyn Joy)

A fluctuation of 1% in the US Dollar rate versus Ringgit, with every other aspects remaining the same, will have an impact of approximately RM10 million to the top and bottom lines of the Group per annum.

18. Some of your peers are doing RTA (ready to assemble) products - which have higher margins. Is Lii Hen looking to expand to this range? (Caitlyn Joy)

The business strategies of the Group are largely customer driven, with customers comprising major US furniture importers, wholesalers and retailers. Albeit there are higher margins for RTA products, the Group does not foresee the immediate benefit in expanding its product range given the stiff competition.

19. With the strong recovery in the Covid condition in China, will that pose a threat to Malaysian furniture manufacturers in your view? (Yap Hong Yi)

Given that the furniture industry is customer-driven in nature, it is beyond the control of the Group. Having said that, continuous efforts will be deployed internally to improve our product quality, offer innovative product designs, timely delivery, maintain close rapport with customers and offer competitive pricing taking into consideration expanding labor costs and diminishing supply of wood without significantly jeopardising the Group's bottom line.

Competition may not necessarily come from China only but also from other countries such as Vietnam in producing wood-based furniture products.

20. What is the shop name / link in e-commerce platform? (Tan Sin Zee)

The subsidiary which has registered with local online platforms like Shopee and Lazada as additional channels to sell its products is LSG Furniture Sdn. Bhd.

21. Sir, you responded assessing automation process, but what was the outcome? How much did we invest in Research and Development ("R&D") to develop automatic process? Did we do any benchmarking to other companies overseas? We can think of investing in R&D to develop automation ourselves for cheaper cost? (Rex Ten)

In addition to our response to Question 7 above, the Group may consider collaborating with local manufacturers and/or contractors on the use of technologies, such as equipment and software, to automate certain production processes to reap economies of scale.

22. Will Lii Hen consider setting up a new factory in Vietnam in future? (Joe Lim)

The Group will explore the feasibility of such a venture from time to time.

23. I am participating in a meeting from US, please tell me where or what merchants in United States can I buy our Company's furniture? (Rew Ten)

You may consider visiting Walmart and Target Corporation, both online and in-store retail stores for the range of products offered by the Group.

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