LII HEN INDUSTRIES BHD.

ANNEXURE 3-B: SUMMARY OF LIVE QUESTIONS RECEIVED FROM SHAREHOLDERS AND PROXIES DURING THE ANNUAL GENERAL MEETING ("AGM") ON 12 JUNE 2025 AND THE COMPANY'S RESPONSES THERETO

Questions:

1. **a) I would like to seek clarification on the plantation business, noting that the venture has not yielded any returns to date and has experienced impairments in the past. I acknowledged that the plantation was initially established at a time when the Company relied heavily on rubberwood as a key raw material. However, the market dynamics have since shifted and the Company is no longer dependent on rubberwood, thus raising concerns about the continued viability of the plantation. As such, I request more information on:**
    - i. **the current operations, including whether there is an estate manager and workers employed on-site, and the annual cost of maintaining the estate.**
    - ii. **the Company's longer-term strategy, including whether there are plans to exit the plantation business; and**
    - iii. **what challenges are being faced in making that decision?**

    (Mr. Ee Yih Chin)

    <u>Company's Response</u>:

    The plantation as recorded under biological assets in the financial statements, and around RM300,000 was incurred in the financial year for operational costs such as spraying, use of pesticides, and payment of salaries for estate workers and the estate manager. Impairments have been made in the past due to fair value assessments, particularly in response to unforeseen wildlife intrusion, which affected asset values. As the trees on the estate are not yet mature and cannot be tapped or harvested, so the plantation is not currently generating revenue.

    However, the Company will continue to monitor the situation closely, with the Board would review plantation reports on a monthly basis. Despite the initial rationale for the plantation is no longer relevant now, the Company now sees the potential ESG value in the estate, particularly in its function as a carbon sink, which supports the Company's efforts towards carbon offsetting and future sustainability goals. Insurance coverage has also been arranged to mitigate risks, although not on a full-value basis; i.e. about 80% of the carrying value (approximately RM3.3 million) is being insured.

    Regarding future plans, the Company is in ongoing discussions and exploration of opportunities with the Johor State Government, which is the minority shareholder in the plantation venture. While an exit remains a possibility, no decision has been made as multiple factors, including ESG considerations and stakeholder interests, are still under review.

b) I am concerned on the recent impairment related to two major customers who have become insolvent, amounting to approximately RM8.4 million. While this represents only around 1–2% of the Company's annual revenue of RM600–700 million, it is still significant. I acknowledged that the U.S. retail sector has been under pressure for some time, so such developments are not entirely unexpected. However, I would like to know how the company monitors the financial health of its existing customers. At what point they may be flagged as credit risks, and how the Company manages and responds to such risk exposure?

(Mr. Ee Yih Chin)

Company's Response:

The Company acknowledged the impairment and referred to its Statement on Risk Management and Internal Control, emphasizing that any significant financial loss, such as this impairment, was addressed within that framework. It was explained that the Company has established Standard Operating Procedures (SOPs) and applied credit limits to all customers. If there are any deviations from the agreed trade terms, these matters are escalated to executive management and further tabled at the Board level for review and approval, which includes input from independent directors.

The two impaired customers were long-standing clients with no prior history of default whatsoever and had contributed consistently to the Group's revenues and profits over the past years. Unfortunately, both customers were suddenly impacted by financial difficulties—one was filed for Chapter 11 bankruptcy protection, while the other had faced insolvency-related proceedings—such events that were rather unforeseen and unprecedent.

The Company emphasized that while it maintains strong internal controls and risk management practices, no system can offer absolute protection from such occurrences. Internal controls are designed to provide reasonable assurance but cannot fully eliminate risk, especially in cases of sudden external financial shocks. An additional comment was made that the Audit Committee, which oversees risk management, will continue to monitor such issues carefully to ensure appropriate oversight is always maintained.

2. **I would like to inquire about the Company's capital expenditure (capex) plans, specifically for the current and upcoming years. How long it would take for the investments to lead to improved/desired performance, and what kind of labour cost reduction and productivity gains the Company expects to achieve following the implementation of automation initiatives?**

(Mr. Ng Ah Hai)

Company's Response:

The Company's current capex is primarily focused on automation initiatives. Given the unique and non-homogeneous nature of its manufacturing processes, automation is most beneficial where production volumes are higher. The Company began trial runs using robotic arms last year and observed promising results. For example, on one particular production line involving stacking and part collection, the introduction of robotic arms led to a 50% reduction in workforce required.

Overall, with further automation, the Company anticipates being able to reduce its dependence on foreign workers by approximately 20%, which would be a significant cost saving. The projected capex over the next 12 months is expected to be in the range of RM4 to RM5 million, mainly for the procurement and rollout of additional robotic systems. It was noted that the cost of robotic arms has dropped significantly in recent years—from around USD40,000 in 2019 to approximately RMB40,000 today—partly due to trade restrictions affecting Chinese exports.

However, the Company highlighted a challenge ahead though. Notwithstanding the local government is encouraging automation and reduction in reliance on foreign labour, larger companies like the Company do not qualify for certain SME-targeted incentives. The Company is currently working with the Malaysian Furniture Association to lobby for broader supports, as the current foreign labour quota policy (80% local vs 20% foreign) would severely impact many manufacturers if not reviewed.

3. **a) I am concerned on the current downturn in the U.S. bedroom furniture market and its impact on the Company's performance. Whether the Company expects an overall reduction in supply capacity within the industry due to weaker demand and whether this is an industry where capacity can be easily scaled up or down in response to market changes?**

(Mr. Kwang Qi Cai – Corporate Representative JCBNEXT)

Company's Response:

The existing bedroom furniture production is currently running at about 50% capacity. The issue is not one of production limitations, but rather insufficient sales volume.

With regard to the broader industry in Malaysia, the Company noted that most bedroom furniture manufacturers are facing similar challenges and are also operating below capacity. As a result, there is no immediate concern about a lack of production capacity.

However, due to the prolonged slump in demand, there may be a risk of capacity reduction over time if companies begin shutting down operations. For now, the Company and its peers in Malaysia continue to face underutilization across the bedroom furniture segment.

b) I would like to follow-up with the question concerning the recent impairment involving two major customers. Were there any early warning signs or red flags prior to the customers experiencing financial distress? How about customer concentration, noting that if the Company does not manage to replace those customers, it would be left with a smaller customer base? In light of this, would the Company consider adjusting credit limits per customer to better manage concentration risk?

(Mr. Kwang Qi Cai – Corporate Representative JCBNEXT)

Company's Response:

This issue had also been a subject of discussion and debate at the Board Risk Management and Sustainability Committee and the Audit Committee. In terms of internal controls, any request to increase a customer's credit limit is subjected to the Board's approval. Once credit is extended, the Company continuously monitors the receivables through standard ageing analysis in compliance with the Expected Credit Loss (ECL) model under the Malaysian Financial Reporting Standards.

Over the last 10 or more quarters, there had been no immediate need to impair receivables—until the recent instance involving two long-standing and previously reliable customers. The Company clarified that there were no clear red flags or overdue receivables that would have signaled impending default. In fact, the customers continued to place orders and made payments up until the time they filed for Chapter 11 protection. Because these customers were private companies, there was limited access to their financial information, making it difficult for the executive management to detect for early signs of distress. The Company relies heavily on the executive management team and external agents for ongoing engagement and market feedback.

Unfortunately, the situation unfolded rapidly, in a manner similar to what has also happened to competitors. Having said that, the Company was not left with any significant level of stock or raw materials that were specific to these customers, and the materials on hand can be repurposed for other products, avoiding potential obsolescence issues.

c) How about the management of the plantation, noting earlier that the estate manager had been appointed? Was there only one inspection conducted per year and why the damage to the plantation was not detected earlier?

(Mr. Kwang Qi Cai – Corporate Representative JCBNEXT)

Company's Response:

The estate manager is based on-site at the plantation and will conduct monthly reviews, thus providing regular updates to the management team. The annual visit mentioned earlier refers specifically to inspections carried out by the executive directors, not the estate manager. These director-level visits typically take place once a year, subject to availability. In 2024, a visit was planned by an independent director, Mr. Chek, who has requisite knowledge and years of experience in the rubberwood and plantation matters. However, due to severe floodings and heavy rainfall in the last quarter of 2024, the visit was somehow postponed. Unfortunately, the plantation damage was occurred way before the rescheduled visit could take place. Such incident was indeed an unfortunate one which was beyond control.

4. **I would like to refer to the earlier discussion on the issue concerning the foreign workers and automation. May I know the percentage of labour optimization that the Company is ultimately aiming to achieve, particularly as it transitions from a 50% reduction in foreign workforce towards more automation?**

   (Encik Norhisam Bin Sidek – Corporate Representative MSWG)

   Company's Response:

   While automation is a key focus, its implementation always depends on the specific processes involved. Some manufacturing steps are suitable for automation, such as stacking or repetitive handling, while others may still require manual labour due to complexity or low volume. For example, where demand is low—when handling just ten items per month—it may be more cost-effective to rely on manpower rather than investing RM20,000–RM30,000 in a robotic arm.

   The Group's overall strategy remains focused on high-volume production, especially in the mid-to-lower price segments, which continue to be in demand despite market challenges. In terms of automation, the Company believes a 20% reduction in foreign labour is achievable in the near term, but full optimization will depend on order volumes and production requirements in long run.

5. **a) Can the management share more about the Company's key competitors in the market, particularly whether the Company competes directly with Chinese or Vietnamese manufacturers when bidding for orders?**

   (Mr. Tan Ching Yuew - Corporate Representative JCBNEXT)

Company's Response:

Vietnam is currently the Company's biggest competitor, as many Chinese manufacturers have relocated their operations there. While these Vietnamese players previously focused on different product categories, they are now entering into the same product segments that the Company is currently involved in for the U.S. market.

The U.S.–China trade tensions have created an advantage for Malaysian manufacturers through the imposition of tariffs and compliance requirements of U.S. customs law. These rules stipulate that Chinese-origin components in exported furniture products must not exceed 40% of the total content, which has helped level up the playing field for compliant exporters.

As a publicly listed company (PLC), the Company adheres strictly to compliance and ethical standards, and therefore not engages in "re-badging" practices — where 100% Chinese-made goods are shipped from Malaysia under a false "Made in Malaysia" label. Despite being approached with offers involving substantial deals to act as a shipping channel for such products, the Company declined such offers having noted the regulatory risks and reputational concerns. In contrast, non-listed local manufacturers may sometimes participate in such practices purely for survival, and if caught, they could simply shut down and move on with minor consequences.

b) While the Company's selling price did not increase last year, raw material costs rose significantly. Can the management elaborate on this issue and whether selling prices have improved this year, especially in light of the weaker USD?

(Mr. Tan Ching Yuew - Corporate Representative JCBNEXT)

Company's Response:

Fluctuations in the US dollar (USD) have a notable impact on the Company's recorded revenue and margins. Since sales are largely denominated in USD, while operational costs are mostly in Ringgit Malaysia (MYR), foreign exchange movements affect both the top and bottom lines.

The weakening of the USD may affect revenue when converted to MYR, even if actual sales volumes remain stable. The Company continues to monitor the forex situation closely and will manage costs carefully to maintain profitability.

c) Can the management also elaborate on the new innovative products mentioned earlier, and the plans to sell more higher-margin products?

(Mr. Tan Ching Yuew - Corporate Representative JCBNEXT)

Company's Response:

The focus is primarily on the mechanized sofa line. Unlike traditional sofas, these mechanized sofas incorporate features such as motorized reclining, extendable footrests, and built-in USB ports—similar to massage chairs. These products cater especially to the North American market, where consumers appreciate the convenience of furniture that adjusts electronically at the push of a button. This market segment is sizable and offers slightly higher margins as compared to the conventional furniture.

The Company sources the mechanical components rather than manufacturing them in-house. This is to ensure that less than 20% of the mechanical parts are from China as to comply with regulatory requirements and to diversify the supply chain. While China remains the cheapest source for many electronic components due to their advanced, integrated supply chain and fast turnaround times, Malaysia is somehow limited in this respect as local manufacturing of such components takes longer and costs more.

6. **a) What is the number of containers shipped last year and the year-to-date figures?**

(Mr. Ee Yih Chin)

Company's Response:

On average, the Company shipped approximately 1,003 containers per month in the previous financial year. However, the container count does not directly correlate with turnover, as it depends heavily on the product mix. For instance, bedroom sets typically require more space and/or containers due to their bulk, whereas panel-based products may require fewer.

For the first 3 months of the current year, the Company shipped around 800 containers per month. It was noted that during peak times in the past, the close to 2,000 containers a month were shipped.

U.S. customers normally prefer fully-assembled products due to high labor costs in their market. This preference affects container usage as well, since complete sets would take up more space. In contrast, markets like Malaysia are more inclined toward flat-packed or component-based furniture, which can be more compact but less efficient for high-volume shipping.

b) Reference is made to a previous discussion on production capacity. I noted that the Company's current utilization rate stands at around 50%. How about the workforce size, noting that the number of workers has remained relatively stable over the past few years, averaging slightly below 3,000? Whether this is an optimal level the Company plans to maintain over the coming year.

(Mr. Ee Yih Chin)

Company's Response:

The current number was just under 3,000 workers and this is aligned with the present operational needs, particularly the current 50% capacity utilization. However, there is potential for workforce optimization as automation efforts continue.

c) What is the Company's cost structure and what management considers to be a sustainable margin?

(Mr. Ee Yih Chin)

Company's Response:

In terms of cost structure, labor constitutes a significant portion of fixed costs—estimated between RM40 to RM48 million annually. This translates to roughly RM10 million in fixed monthly costs. The variable costs, however, fluctuate based on sales turnover.

At a revenue level of RM200 million per year, the Company should be able to achieve a break-even position. This figure is viewed as the minimum threshold to cover essential fixed and variable expenses. Furthermore, management emphasized the impact of currency fluctuations, particularly the strength of the U.S. dollar, as a major determinant of profitability. Since most revenue is denominated in USD while costs are incurred in MYR, forex movement will have a direct impact on margins.

d) Given the location of the Annual General Meeting (AGM) in Muar, would the Company consider conducting a hybrid AGM next year as to allow shareholders who are unable to attend physically—such as those based in other states or countries—to participate virtually from home or their offices?

(Mr. Ee Yih Chin)

Company's Response:

The Chairman acknowledged the relevance of the question and shared that the Company is aware of the recommendation under the Malaysian Code on Corporate Governance (MCCG), which encourages the PLCs to consider conducting hybrid AGMs (i.e., both physical and online participation) to promote broader shareholder engagement.

However, the recent amendments to the Main Market Listing Requirements now mandate that PLCs to hold at minimum a physical AGM. While online participation is not prohibited, it must supplement a physical meeting and not replace it.

For this year, the Company opted to hold a physical AGM due to several practical considerations as listed below:

- **Infrastructure Limitations**: The venue in Muar does not offer strong or stable Wi-Fi connectivity, which poses significant risks to running a seamless hybrid meeting.

- **Cost and Resources**: Implementing a hybrid model requires both financial and manpower resources that may not be justified at this point given the Company's size and complexity.

- **Risk Management**: The Company is mindful of the risk that a poorly executed hybrid AGM (e.g., technical issues for online attendees) could reflect poorly on the Company and potentially violate good governance principles.

That said, the Board remains open to the idea and is actively monitoring the experience of other PLCs that are implementing hybrid AGMs. The Company will assess whether it has the necessary infrastructure and capabilities to adopt a hybrid format in the future. The Chairman emphasized that any move toward hybrid meetings will be made only if it can ensure quality, inclusivity, and a smooth experience for all shareholders.

The Chairman further reiterated the Company's commitment to corporate governance and affirmed that the Board is taking this matter seriously as part of its ongoing governance and shareholders' engagement agenda.

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