

**LII HEN INDUSTRIES BHD.**

**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”) ON 15 JUNE 2022 AND THE COMPANY’S RESPONSES THERETO**

**Questions:**

- 1. The new factory is scheduled for completion in 1st half of 2022 and operations are expected to commence in 2nd half of 2022 (page 6 of AR) (1). Can the Board update the latest progress of the factory expansion and how much additional capacity will be added to the existing capacities? (2) What was the total investment for this next factory? (Lew Tuck Wai)**

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

- 2. May I know what is the impact to the Company if US cancels China furniture tariff? (Yee Kar Wai)**

The impact is considered minimal as cost of labour and raw materials (such as rubber wood) are relatively lower as compared to those for China furniture.

- 3. The Gross Profit Margin of the Group dropped to 15% in FY2021. The latest 1st Quarter 2022 results showed an improvement of Gross Profit Margin to 17.5%. Based on current operating environment, can the Group maintain this profit margin for the remaining quarters of FY2022? (Lew Tuck Wai)**

FY2021 was indeed a bad year due to the COVID-19 pandemic control measures. With the temporary shut-down of operations and operating at reduced capacity on several occasions, lower sales were generated. Gross profit margin further dampened mainly due to absorption of fixed overheads on lower revenue. With the higher rate of vaccination and resumption of operations in the 4th quarter of FY2021, the Group’s performance began to recover, albeit slowly.

- 4. How much does the Company spend on this virtual AGM? Would the BOD kindly consider giving shareholders RM50 KFC voucher as a token of appreciation for attending today’s Meeting to enhance the good relationships with the shareholders? (Lee Suan Bee)**

The cost of virtual AGM and EGM is approximately RM25,000. No door gifts are provided to shareholders who attend this meeting as the AGM is held fully virtual. Nonetheless, the Company will consider providing 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.

- 5. The revenue of the Group from the North America geographical segment increased further to 95% in 2021 vs 91% in 2020. Can the Board and Management inform shareholders the steps taken to reduce the Group's dependency to the North America market? (Lew Tuck Wai)**

The increase in revenue from North American market 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%.

**6. May I know how many shareholders are attending today's meeting? (Lee Suan Bee)**

The Share Registrar has just notified that there are a total of 62 shareholders and/or proxies registered and participating in the AGM.

**7. Can I request door gift for long loyalty investors? (Lim Eng Wah)**

No door gifts are provided to shareholders who attend the AGM given it is held fully virtual. Nonetheless, the Company will consider providing 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.

**8. I noticed that there is a slowdown in furniture demand especially from US market. Can you share with us what is the Group's current sales trend? (Riche Ho)**

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.

**9. The 436 hectares of the plantation JV has been planted with clone rubber trees with age between 3 and 7 years. (1) Was there any harvesting of the planted rubber trees in 2021? If not, when will the rubber trees be ready to be harvested? (2) Will all the harvested rubber trees be "reserved" for Lii Hen's own use or be sold to 3rd parties? (Lew Tuck Wai)**

During the financial year under review, peat fire occurred in certain parts of the estate, measuring approximately 9 hectares which destroyed about 5,040 rubber trees aged between 3 and 5 years. The peat fire could be due to hot and dry spell in the estate during that period. With such damages and inconsistent distribution, tapping of latex may only be viable as and when overall 70% of the trees has reached maturity.

As reiterated, the main objective of going into plantation is more of a long-term strategic plan to ensure sufficiency of wood supply besides price stability. Harvesting of latex is only expected in year 2023 whereas harvesting of the rubber wood will be after 2030.

**10. May I know how to vote? (Lee Suan Bee)**

Please refer to the Technical Support team from Digerati Technologies Sdn. Bhd. on enquiry in relation to registration, logging in and system related.

**11. Is there a link for voting? (Lee Suan Bee)**

Please refer to the Technical Support team from Digerati Technologies Sdn. Bhd. on enquiry in relation to registration, logging in and system related.

**12. What is the business strategies of Lii Hen during the high inflation period? (Wong Kwang Chen)**

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

- i. Continue to strengthen 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 and enhance the process to sustain product quality consistently;
- iv. Participate in international trade fairs and exhibitions to keep abreast of developments in the furniture industry, especially on newer products, designs and innovations; and
- v. Maintain an emphasis on embracing the Economic, Environmental, Social and Governance ("ESG") dimensions in business strategies to enhance the Group's sustainability going forward.

**13. The 1st Quarter of 2022 results reported an improvement in the Profits Before Tax vs 1st Quarter of 2021 and one of the reasons for the improvement is due to the favourable exchange rates of USD vs RM. Since the release of the results, USD has further appreciated against RM to more than RM4.40. Will Lii Hen benefit further from this appreciation of the USD in the remaining quarters of 2022? (Lew Tuck Wai)**

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

**14. (a) The future outlook of the real estate housing market in the US is not encouraging, especially during this period of inflation, and as clearly indicated in recent weeks on Fed Rate hike. This will directly cause slowdown of the imports of furniture in US. Do we have any prospects to tackle the orders slowdown or sustaining the order book, as well as ensuring continuation of revenues in the next 3 years?**

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 and their associated variants. Notwithstanding such potential adversities, the Group will stay vigilant to face the challenges.

**(b) How is the competition in market share of Lii Hen versus RTA modeled companies in terms of order books from US? Is the company able to fortify the revenues with the clients overseas? (Stanley Lim Chin Hong)**

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.

**15. How is the Company addressing ESG issues particularly foreign workers like overtime, living conditions, etc., when the industry is facing worker shortage? As the Company is one of the largest furniture manufacturers, it is not surprising that social activists (e.g. Andy Hall) are watching the company closely. May the management enlighten the shareholders how the Company is handling these challenges? (Ng)**

The Group will continue maintaining its emphasis on embracing the ESG dimensions in business strategies so as to defray impact from the inflationary pressures as well as to enhance 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, and compliance with environmental laws pertaining to discharge of effluents.

You may refer to full details of such matters and how they were managed set out in the Sustainability Statement of the Company's Annual Report.

**16. Your inventories have been consistently hovering around RM130,000,000 to RM150,000,000. How have these inventories have been turned around? How much of the older inventories for orders made during MCO period have been delivered to the clients? (Stanley Lim Chin Hong)**

The Group's inventory level was higher for the current year, mainly 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. deferment on shipment of finished products due to the global shortage of containers, which was equivalent to about 7% to 8% in value of the goods.

The Management is mindful of this trend and has been taking pertinent measures to mitigate the Group's exposure to impairment risk. Among others, the Group had been reducing overtime on certain production lines. The finished goods inventory level had been moderated compared to last year. Having said that, the situation has yet to see significant improvement so far.

**17. As US economy is going through stagnation and most of Lii Hen's revenue come from US, how will this affect the performance of Lii Hen? What is the plan moving forward? (Enthel Tan Sze Kim)**

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- ii. Enhance operational processes by adopting new technologies that improve the production efficiency;
- iii. Continue to focus and enhance the process to sustain product quality consistently;
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- v. Maintain an emphasis on embracing the ESG dimensions in business strategies to enhance the Group's sustainability going forward.

**18. Where or what local merchants or companies can I buy Lii Hen products? (Lim)**

The Board will share the list of local merchants once the Management team has gathered the relevant information.

**19. What happened if US reduce tariffs on China? (Cheah Sheng Xun)**

The impact is considered minimal as cost of labour and raw materials (such as rubber wood) are relatively lower as compared to those for China furniture.

**20. Please reconsider the request for the food voucher by the shareholders, as it does not incur a lot of expenses for the Company - the Company can just send the voucher to shareholders by post. (Lee Suan Bee)**

Thank you for the suggestion and the Company 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.

**21. When the Company resumes physical AGMs in future, may I suggest the Company to still offer the option of virtual AGMs for shareholders who live faraway? (Ee Yih Chin)**

Thank you for the suggestion. The Board of Directors will take note and explore the feasibility of either virtual or hybrid AGM from time to time to encourage shareholder activism.

**22. Lii Hen has "walk the talk" in adopting the MCCG 2021 practices in engaging shareholders. A vote of thanks to the Board of Directors and Management. (Lew Tuck Wai)**

Thank you for the acknowledgement.

**23. Which other ASEAN countries are catching up? (Sharn Lee)**

Vietnam is expected to be the closest competitor as compared to China which is in a totally different segment. Having said that, it is no longer any competitive advantage in view of the rising labour cost in Vietnam.

**24. Is there any other local furniture makers that Lii Hen thinks highly competitive? (Sharn Lee)**

The Group will continue strengthening its market position through new product development, innovation and adoption of new technologies to enhance operational processes, and to focus on customers' preference with repetitive orders as evidence of patronage.

**25. What are the key economic factors for furniture manufacturing business, and those differentiating top notch and second tier operators? (Sharn Lee)**

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

**26. Why can't I see your product in Shopee and Lazada? (Cheah Sheng Xun)**

Our subsidiary, LSG Furniture Sdn Bhd, involved in manufacturing of sofa set has been participating on local online platforms such as Shopee and Lazada to reach local customers.

**27. Please provide the brand name, is it Mainstays? (Lim)**

The Group's products are mainly those of OEM with brand name of the customers. You may consider visiting Walmart and Target Corporation, both online and in-store retail stores for the range of products offered by the Group.

**28. Please share your thoughts on the differences between OEM versus ODM models in the US market? (Ee Yih Chin)**

The major difference lies between OEM models and ODM models for US market is that the Research & Development (R&D) activities for the former are mainly driven by the Management and borne by the Group. As such, the R&D expenses for ODM models will be much lesser as compared to OEM models.

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