YHI INTERNATIONAL LIMITED

Company Registration No. 200007455H

ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2022
RESPONSE TO QUESTIONS FROM SHAREHOLDERS

Q1: What measures has the Group's manufacturing segment taken to mitigate the impact of higher ocean freight charges and higher aluminium prices?

Company's Response

The Group's manufacturing segment has taken the following steps to mitigate the impact of higher ocean freight charges and aluminium prices:

a. To sell on FOB ("Free On Board") term to customers whenever possible to exclude ocean freight;
b. Customers on CIF ("Carriage, Insurance & Freight") term, to pass on the higher freight charges to customers whenever possible;
c. To increase selling prices and pass on the higher aluminium prices to customers.

Q2. As the Group gradually shifts more production from Suzhou to the Malacca manufacturing plant, would there be excess land at Suzhou for rental or sale to third parties?

Company's Response

We do not rule out the possibility of leasing out for rental income should the excess land at Suzhou become available in the future as we gradually shift more production from Suzhou to Malacca.

Q3. Have you seen any significant consolidation or factory closures in the China tyre industry in the past two years? Has the over-capacity situation changed significantly?

Company's Response

Over the past few years, we've heard of many factory closures in China. A number of mid-sized and smaller tire producers in China have been squeezed by rapidly changing domestic market demand dynamics, tariff barriers in export markets, and rising raw materials and labour costs. Government-driven supply-side reform requirements, environmental legislation, and supply-side and industrial reforms are making it harder to survive for these smaller businesses. We've been working with a few major tyre manufacturers who are not affected by the changes and challenges in China. The over-capacity situation has not changed significantly in China and some of the manufacturers have made changes to their exporting strategy by expanding their capacity overseas in countries like Vietnam and Thailand to get around the tariff barriers in export markets such as the USA.

Q4. Why was OZ Sp A, in which YHI has a 35.51% stake, much more profitable than YHI's wheel manufacturing:

	2021		2020	
	OZ SpA	**YHI**	**OZ SpA**	**YHI**
Revenue ($ m)	**97.4**	**115.2**	**84.5**	**110.6**
Pre-tax profit ($ m)	**12.7**	**1.3**	**9.5**	**4.5**

<u>Company's Response</u>

OZ SpA is an Italian company founded in 1971 operating in a niche market selling specialty alloy wheels. OZ SpA supplies to a number of car manufacturers in addition to aftermarket sales and is a prominent wheel supplier in motorsport (e.g. F1, Rally, Le Mans, DTM, Indy.). OZ is a world-renown brand and it meets the special requirements of prestigious automotive manufacturers such as Ferrari, Lamborghini, Maserati, Aston Martin, Lotus and McLaren, to name a few. For FY2021, OZ was able to pass on the high freight charges to its customers very early on in the financial year that enable them to supply consistently in a market and enjoyed higher sales and profit margins.

YHI's wheel manufacturing business is mainly in the aftermarket segment as a contract manufacturer catering mainly for mass market passenger cars. In addition, due to new waves of infections and lock downs in Malaysia, our Malacca factory stopped production for 4 months in FY2021. The shortage of containers and high ocean freight charges had also affected our sales and profitability as customers on FOB terms (from all three factories) delayed in taking delivery of their orders. This inevitably affected our sales and profit margins.

Q5. Is YTSM operating out of premises owned/leased by YHIM or other entities in Malaysia?

<u>Company's Response</u>

YTSM is operating out of the same premises previously occupied by YHIM and the main office building cum warehouse is owned by YHIM.

Q6. In response to queries from SIAS in April 2021, YHI said it "*intend[s] to maintain optimal capital structure so as to maximise shareholders value. In order to maintain or achieve an optimal capital structure, the group may adjust the amount of dividend payment, buy back issued shares, return capital to shareholder or obtain new borrowings. As part of the Group's financial risk management strategy, the management monitors the group's capital based on a net gearing ratio and has set the net gearing ratio target of within 30% to 50% to provide a guidance for the Group.*"

As YHI was not indebted ($85m cash vs $63m bank loans as of the end of 2021), the scope for optimising capital structure is huge. Why was share buyback halted after Oct 2021 when the prevailing share price of around 50c is way below the 98c NAV, and gives rise to a PER of 7 only?

<u>Company's Response</u>

Share buy-back was halted after October 2020 in order to preserve cash. When Covid 19 virus first emerged and the subsequent circuit breaker in April 2020, most people thought that the virus will soon be over in a year or so but the virus started to evolve into different variants. We were concerned that the different variants would cause waves of infections and subsequent lock downs in the various countries where the Group operates. The Group therefore decided to stop the share buy-back exercise to preserve cash in view of the uncertainty of the potential impact on the global economy arising from the future waves of infections. In addition, we were in the midst of planning for an expansion at our Malaysia factory, the expansion plan was also put on hold due to the uncertainty of the virus variants. The disruption of supply chain due to the shortage of containers and the high ocean freight charges have also affirmed our decision to be extra cautious to preserve cash to navigate through the Covid crisis so as to position the Group for future growth as we recover from the impact of the pandemic on our business.

Although the Covid situation has improved, the recent Ukraine crisis has impacted raw materials prices and casting doubts on the recovery of the global economy. We will evaluate our plans for share buy-back and the factory expansion when the situation becomes clearer.

Q7. Shake out of marginal competitors in the tyre distribution industry - Please comment on the significant of this event and whether the industry is being consolidated with the stronger players? Is it across all the regions (ASEAN & Oceania) or localised, example Malaysia? And whether the margin compression of YHI International since FY2012 was due or partially due to the intense competition from all players before the shake out?

<u>Company's Response</u>

The shake out of marginal competitors in the tyre distribution industry is happening across all regions especially in ASEAN albeit not very significant at the moment. Although we foresee the industry will continue to squeeze out marginal players, the tyre distribution industry remains highly competitive.

Intense competition was one of the reasons for margin compression since FY2012. Excess capacity of tyre manufacturers & volatility of raw material prices, change of manufacturers' sales strategy and consumers' buying behaviour also contributed to the margin compression.

Q8: 3M marketing strategy - How does the company measure the performance internally? How do you want shareholders to measure YHI 3M marketing strategy performance and what kind of information should I look for in annual report?

Company's Response

The Company conducts monthly and bimonthly financial performance reviews at each Company and at Group level respectively. The Company also reviews the Sales & Gross Profit contributions by product brand & group, customer segment and other relevant product information of each brand. As the Group operates in a highly competitive industry, we do not generally disclose detailed financial performance of each product brand due to the sensitivity of such information which may be detrimental to our business interests.

By Order of the Board of
YHI International Limited

Tay Tian Hoe Richard
Executive Chairman and Group managing Director

22 April 2022