LY CORPORATION LIMITED
ANNUAL GENERAL MEETING FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
– QUESTIONS FROM SHAREHOLDER

Question 1: I refer to page 107 of the Annual Report about Events occurring after reporting period. In the 3rd paragraph, it was stated that as furniture manufacturing is not included in the List, the Group will be temporarily closing all its factories until 14 June 2021 in compliance with FMCO. It was understood that the total lockdown has been extended to one month, does the Board and Management have any business continuity plan(s) in place to salvage the Group's sales?

Company's response:

As announced by the Company on the SGX-ST on 1 June 2021, the Malaysian Government has imposed a full movement control order nationwide (the "**FMCO**") from 1 June 2021 to 14 June 2021 to curb the spread of the COVID-19 in Malaysia. Under the FMCO, all economic and social activities will not be allowed except for essential economic sectors and services based on the list published by the Ministry of International Trade and Industry, Malaysia dated 30 May 2021 (the "**List**"). On 11 June 2021, the Malaysian Government announced that the FMCO has been extended for two (2) weeks to 28 June 2021. As furniture manufacturing is not included in the List, the Group will be temporarily closing all its factories until 28 June 2021 in compliance with the FMCO.

Since the Movement Control Order ("**MCO**") was first implemented in March 2020, the Group has put in place several measures to ensure business continuity, for example, we have increased our inventories level. We have purchased more raw materials in anticipation of delay in shipments of raw materials, our work-in-progress has also increased and we had more finished goods which are ready to be shipped to customers as soon as the FMCO is lifted and containers are available. However, as the Group's production cannot be carried out off-site, there is a limitation on the effectiveness of the Group's business continuity plan.

Another key to business continuity would be to ensure the Group has sufficient cash resources during this period for its operations. The Company has implemented cost control measures to conserve cash and will continue to monitor its deployment of cash carefully.

The Company will monitor and assess the impact of the COVID-19 on the Group, and will continue to keep shareholders informed of any material development.

Question 2: I refer to page 76 of the Annual Report about Revenue. Why revenue from Hong Kong increased 3.8 times from RM11.100m in 2019 to RM42.160m in 2020? Is such revenue from Hong Kong sustainably recurring?

Company's response:

The increase in revenue from Hong Kong of approximately 3.8 times to RM42.16 million in FY2020 was mainly due to a new customer from Hong Kong in FY2020. Barring unforeseen circumstances, we expect the revenue from this customer to be recurring.

Question 3: I refer to page 76 of the Annual Report about Revenue. Why revenue from Republic of China declined by 34.2% from RM18.200m in 2019 to RM11.983m in 2020?

Company's response:

The revenue from Republic of China dropped by 34.2% to RM11.983 million in FY2020 due mainly to a decline in orders from a buyer in FY2020. We understand that an end customer of the buyer reduced its orders from the buyer in FY2020. In addition, the MCO implemented since March 2020 and the shortages of containers also impeded the delivery of finished goods to the Group's customers.

Question 4: I refer to page 85 of the Annual Report about Investment in subsidiaries. It was understood that on 25 January 2019 (the acquisition date), the Group through its subsidiary, LHSB, acquired equity interest in a business under the trademarks of EZBO and CUBO (the Business) from the Vendor. However, LHG faced Loss after tax from continuing operations representing total comprehensive income of RM2.911m in 2019 (pre-Covid) and RM2.812m in 2020. What went wrong? Is it a mistake to expand into the original brand manufacturing (OBM) business with the EZBO easy-to-assemble multi-functional and space-saving furniture line which had been loss-making even prior to Covid?

Company's response:

Since the completion of the acquisition of the Original Brand Manufacturer ("**OBM**") business in January 2019, we have invested more than RM4.0 million to purchase and upgrade machinery and equipment for the OBM business. We have also relocated the production line to a new and bigger facility in Batu Pahat, Malaysia. These initiatives allow us to increase our production capacity, optimise our operations and grow our OBM business.

We invested in the OBM business at its early stage of development and we are building its brand equity. As with any new business venture, there is always a gestation period to grow such venture into a profitable outfit. While LHG has reported losses for both FY2019 and FY2020, LHG has reported higher revenue and lower loss before tax for FY2020. Revenue from LHG had increased by 76.65% from RM4.54 million in FY2019 to RM8.01 million in FY2020 and its loss before income tax had decreased from 9.82% from RM3.15 million in FY2019 to RM2.84 million in FY2020. As mentioned on page 2 of the Annual Report, there has been increased demand for EZBO products, especially from customers in Japan and South Korea. We believe that the growth of the OBM business in FY2020 was also affected by the COVID-19 pandemic alongside with the worldwide shortage of containers also caused by COVID-19. Accordingly, we remain confident of the long-term prospect of the OBM business.

Question 5: I refer to page 86 of the Annual Report about Intangible assets. Given that LHG suffered from Loss after tax from continuing operations representing total comprehensive income over past 2 years, how likely will its RM2.639m Goodwill and RM335K Trademarks be impaired?

Company's response:

As highlighted under Key Audit Matters of the Independent Auditor's Report, in the impairment assessment of the Group's assets, including goodwill and trademarks, the auditors' audit procedures included but not limited to, assessed the management's process of setting budgets on which the cash flow forecasts are based; assessed the reasonableness of key assumptions used in cash flow projections by comparing them against historical performance, future business plans and market outlook, considering the impact associated with COVID-19 pandemic; and reviewed management's analysis of the sensitivity of the value in use calculations to reasonably possible changes in the key assumptions. The auditors have also involved its internal valuation specialists in performing some of these procedures. Based on our information and after review by the auditors, no impairment on the goodwill and trademarks is required for FY2020. The Group will continue to rigorously assess the impairment of the goodwill and trademarks at subsequent reporting dates.

Question 6: I refer to page 77 of the Annual Report about Other income. Other income from Sale of materials has increased by RM1.994m from RM139K in 2019 to RM2.133m in 2020. Is such sale of timber arising from the new millwork products recurring in nature? How do the Board and Management expect its sales growth trend to be like?

Company's response:

As disclosed on page 3 of the Annual Report, we anticipate the demand for the millwork products to continue to grow. Accordingly, the Group expects the sale of timber arising from the new millwork products to be recurring in nature and we expect such growth to be in tandem with the new millwork business.

Question 7: I refer to page 3 of the Annual Report about Message to shareholders. In the 2nd paragraph here, it was stated that we anticipate the demand for the millworks products to continue to grow, we plan to further increase production capacity by refurbishing an existing warehouse and factory and building an additional production line dedicated for the manufacturing of millworks products, which we aim to complete by end of 2021. How much capex will likely to be incurred?

Company's response:

As at 31 December 2020, the capital commitment for capital expenditure amounted to RM4.90 million which includes the capital expenditure for the millwork products. The Company will continuously evaluate its capital expenditure plans taking into consideration the financial performance and financial position of the Group.

Question 8: I refer to page 81 of the Annual Report about Property Plant and Equipment (PPE). There were Reclassification in Construction-in-progress of RM18.744m in 2019 and RM14.329m in 2020 respectively. Where were these PPEs?

Company's response:

The reclassification can be found on the same line item on page 81 of the Annual Report. FY2019's "Construction-in-progress" of RM18.744 million was reclassified to "Building", "Machinery and equipment" and "Office equipment, furniture and fittings" respectively while FY2020's "Construction-in-progress" of RM14.329 million was reclassified to "Building", "Machinery and equipment", "Office equipment, furniture and fittings" and "Renovation" respectively.

All these PPEs are located in Malaysia.

Question 9: I refer to page 97 of the Annual Report about capital commitments. Other than the aggregate cost for millworks production how will the capital commitments trend be like over the next 2-3 years? How will they be funded?

Company's response:

The Group's capital commitments trend will be dependent on the financial performance and financial position of the Group. As the Group has substantially utilised the proceeds from its initial public offering in 2018 which were allocated to capital expenditure, we will be focusing on their utilisation to expand our production capability and business in the near term. Any future capital expenditure will be funded by internal sources and borrowings (including finance leases where available).

Question 10: I refer to page 97 of the Annual Report about Guarantees. Guarantees provided by the Company have increased by RM68.466m from RM5.894m in 2019 to RM74.360m in 2020. What were these bank facilities pertaining to where RM74.360m guarantees had to be provided?

Company's response:

The bank facilities that gave rise to the corporate guarantees includes term loans and trade facilities. Please refer to disclosures in Note 19 of the Financial Statements on pages 90 to 91 of the Annual Report for further details of the bank facilities. As disclosed in Note 19, the Group has utilised a total amount of RM43.23 million of these bank facilities as at 31 December 2020.

Question 11: I refer to page 100 of the Annual Report about Credit risk. Noted that there was RM3.119m trade receivables from USA that were more than 90 days past due. How much of this RM3.119m came from the 5 major customers located in United States of America, Hong Kong and Malaysia? May I ask the Audit Committee how much of this RM3.119m has been collected so far?

Company's response:

Approximately 99.6% of RM3.119 million amount owing by the trade receivables from USA were due from one (1) major customer in the USA.

As at 25 June 2021, approximately 95.1% of the RM3.119 million was collected.

Question 12: I refer to page 28 of the Annual Report about Corporate Governance Report. Can the Remuneration Committee share why the number of Key Management Personnels (KMPs) doubled from 3 in FY2019 to 6 in FY2020?

Company's response:

We wish to clarify that the additional three (3) KMPs are existing directors of the Group's subsidiary companies, and they are not new KMPs recruited by the Group in FY2020. The Company has included the three (3) additional KMPs in the Corporate Governance Report for FY2020 to recognise the importance of their roles in the Group.