# LAY HONG BERHAD (107129-H)

(Incorporated in Malaysia)

**SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTY-THIRD ANNUAL GENERAL MEETING ("33$^{RD}$ AGM") OF THE COMPANY DULY CONVENED AND HELD AT BALLROOM III, GROUND FLOOR, PREMIERE HOTEL, BANDAR BUKIT TINGGI 1/KS6, JALAN LANGAT, 41200 KLANG, SELANGOR DARUL EHSAN ON THURSDAY, 28 SEPTEMBER 2017 AT 11.30 A.M.**

Mr Yap Hoong Chai ("the Executive Chairman") chaired the 33$^{rd}$ AGM of the Company. The Executive Chairman called the meeting to order at 11.30 a.m. and the Secretary confirmed the presence of a requisite quorum for the meeting.

The Executive Chairman tabled the Company's Audited Financial Statements ("AFS") and the Reports of the Directors and Auditors for the financial year ended 31 March 2017 ("FYE 2017").

The Executive Chairman declared that the AFS together with the Reports of the Directors and Auditors for the FYE 2017 as received and duly tabled at the 33$^{rd}$ AGM in accordance with Section 340(1)(a) of the Companies Act 2016 ("CA 2016"). The Executive Chairman explained that the AFS for FYE 2017 were for discussion only, as they did not require shareholders' approval. Hence, the AFS would not be put forward for voting.

The Executive Chairman informed that The Minority Shareholder Watchdog Group ("MSWG") had vide its letter dated 21 September 2017 addressed to the Board of Directors ("Board") sought information and clarification on the Financial Statement for the financial year ended 31 March 2017. On behalf of the Board, the Executive Chairman thanked MSWG for giving the Company notice of their questions to enable the Board to reply officially to their letter.

For the information of the members present, the following questions from and correspondent replies to MSWG were read out:

**STRATEGY / FINANCIAL MATTERS**

**<u>Question 1 - Layer Farm</u>**

We noted that the Group's strategy to locate all newer layer farms in one strategic area had saved management and logistic costs. We also noted that the Group is planning to invest in two (2) new additional automated farms to enhance the current production capacity of over 2.2 million to 3 million table eggs per day within the next two (2) years to cater for the increased demand.

(i) What would be the expected capital expenditure to achieve this strategy?

(ii) What is the estimated savings in management and logistic costs if all farms are located in a single area?

(iii) What is the expected market demand and internal capacity per day (egg) for layer farm in Selangor and Sabah once it commences operation?

**<u>Response to Question 1</u>**

(i) The expected capital expenditure will be approximately RM50.00 million.

(ii) Total management and logistic costs incurred in the group farm layer business for the financial year ended 31 March, 2017 was RM10.83 million. With the group adopting the strategy of locating all new farms in a single locality, the expected savings will be in the following areas:-

- A single Farm Manager can manage a few farms instead of appointing multiple managers.
- Numbers of workers are reduced and can perform multiple tasks.
- The movements of raw materials, layers and eggs are minimized, thus reducing egg breakages and feed wastages.

Based on the above, the estimated savings will be at least 5% of the above cost.

(iii) Upon full completion of the new farms, the total eggs production will be 3.0 million per day. Of this, a total of 2.30 million eggs will be from Peninsular Malaysia and the balance of 0.70 million eggs will be from Sabah. On the Peninsular side, out of the above total, 30% will be in the form of functional eggs with the Nutriplus brand, another 30% will be utilized to be processed into pasteurized liquid egg and 15% will go for exports to Singapore and the balance will be for the existing market network of dealers and hypermarket chains.

**<u>Question 2 - Food Processing (Chicken)</u>**

As reported on page 11 of Annual Report 2017, the increase of 1.06 million kilograms or 12.2% of the processed chicken products during the financial year had demonstrated that the Group had steadily increasing its market share in the segment of downstream chicken business.

(i) What is the current market share of the downstream chicken business?

(ii) What is the targeted area of focus for the Group to further sustain the downstream chicken business?

**<u>Response to Question 2</u>**

(i) Currently there are no statistics compiled by an independent body to determine market share of each company. Based on market feel and our physical products presence in the shelves of big hypermarkets / supermarkets and retail stores, our products under the Nutriplus and Wise Choice brands are clearly dominating.

(ii) The group will continue to intensify its research and development effort to introduce more halal product variants into the market. Now with the cooperation with our strategic investor in the form of NH Foods Limited from Japan, who has proven technological food expertise, more halal products will be produced gradually especially for the export market.

**<u>Question 3 - Food Processing (Pasteurized Liquid Egg)</u>**

During the financial year ended 31 March 2017, the segment produced 4.10 million kilograms compared to 3.68 million kilograms in the previous year. The higher produced was due to larger off-take by a large multinational company manufacturing mayonnaise.

What measures have the Group taken to sustain and increase this business?

**<u>Response to Question 3</u>**

With the world awareness on food safety and speed of production, demand for liquid egg products will increase further. Forward looking confectioneries will convert their production processes to accommodate liquid egg usage instead of the conventional shell eggs which require workers to break the shell and do not meet the food safety guidelines for their product certifications. With this requirement, it is believed that more companies will gradually shift to pasteurized liquid egg. Of late we have a few confectioneries taking this move. Moreover, the company is able to tailor to customers' need based on specific requirement, for example the liquid egg require certain amount of salt and sugar added.

**<u>Question 4 - Retail Supermarket</u>**

Could the Board share the total capital expenditure incurred to open new store, the breakeven point and the total cost for operations & closure?

**<u>Response to Question 4</u>**

For the 3 new stores opened, the company incurred a total capital expenditure of RM3.71 million. They are located in Kinarut, Telupid and Pitas.

The breakeven point to operate a typical store of a 30,000 square feet of nett retail area will be around RM500,000.00 sales per month.

The cost of closure of the 2 non-performing stores during the financial year was RM650,000. This amount comprised mainly of fixed renovations cost sunk.

**<u>Question 5</u>**

Could the Board update the shareholders on the material litigation case for "Tiong Nam Logistics Solutions Sdn Bhd ("Tiong Nam Logistics") v Lay Hong Food Corporation Sdn Bhd (Lay Hong Food") (Civil Suit 22 NCVC-629-10/2013)"?

**<u>Response to Question 5</u>**

As updated in the last quarterly report, the Federal Court has fixed the hearing for "leave" on 30 October, 2017.

**CORPORATE GOVERNANCE**

We noted that the total directors' fees paid in FY2017 was RM113,667 as stated on Note 33 to the Financial Statements on page 144 of the Annual Report whilst the directors' fees stated under Resolution 2 in the Notice of Annual General Meeting was RM305,300.

Please explain.

**<u>Response</u>**

The total directors' fees paid in FY2017 of RM113,667 on Note 33 of the Annual Report was only for the Non-Executive fees due in year 2016 and paid in year 2017.

However, on the Resolution 2 in the current Notice of AGM, the amount stated of RM305,500 is for the entire board for financial year ended 31 March, 2017.

Subsequent to the above, the Executive Chairman opened the floor for question on the AFS of the Company for FY2017.

The following queries were raised by shareholders and responses made by the Board members:

**<u>Question 1</u>**

Mr Ho Yueh Weng (Shareholder) enquired on why the Trade Receivables increased compared to year 2016?

**<u>Response to Question 1</u>**

Mr Ng Kim Tian (Executive Director) replied that the trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Company. None of the Group's and the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

The Group and the Company have trade receivables amounting to RM4,981,316 (2016: RM4,628,428) and RM1,095,617 (2016: RM599,933) respectively that are past due at the reporting date and not impaired.

The Group and the Company have impairment of trade receivables amounting to RM 5,350,804 (2016:RM4,997,740) and RM68,386 (2016:RM68,554) respectively.

Mr Ng informed that the credit terms granted to customers ranged from 45 days to 75 days. The customers have varying degrees of credit risk profiles which expose the Group to the risk of slow or non-payment by them. In the event that if the customers default on their payments, the operating cash flows, financial condition and results of operation could be materially and adversely affected.

The Management is aware of their exposure to the above and they have mitigated these risks by putting in place prudent credit management policies in the Group such as the application of credit approvals, credit limits and monitoring procedures on an on-going basis. They perform credit evaluation on all the customers and an appropriate credit limit is then allocated to each customer based on the assessment of their risk profile. In addition, the Management also emphasized on close monitoring and collection of accounts on an on-going or monthly basis to minimize the risk of default.

Although there has been no material collection problem on trade receivables or material bad debts written off in the past, there is no guarantee that all the customers will be able to fulfil their debts obligation as and when the debts become due or that the Group will not encounter collection problem in the near future. Any default or delay in the collection of debts which lead to impairment loss on trade receivables or bad debts may have an impact on our financial performance.

**<u>Question 2</u>**

Mr Ho requested the Board to clarify a news article published by Star Biz on 21 September 2017 entitled "Lay Hong moves into an e-grocery".

"Egg and poultry producer LHB is close to buying a stake in a listed logistics company as it seeks to enter the e-grocery and same day delivery business in Malaysia".

**<u>Response to Question 2</u>**

Mr Yap Chor How clarified that there may have been some confusion arising from the contents regarding Lay Hong which are not true. He further clarified that the Company do not invest in or get involved in e-grocery business and the Company is merely a user of the business. He mentioned that at this point in time the Board has no intention to invest or acquire any logistics business.

**<u>Question 3</u>**

Mr Ho enquired on how the Directors paid the fine of RM750,000 imposed by Bursa Securities.

**Response to Question 3**

The Executive Chairman informed that Bursa Securities has publicly reprimanded the Company and its Directors for breaching the Bursa Securities Main Market Listing Requirements. In addition, the 8 directors of the Company at the material time had been fined a total of RM750,000. The fine was paid by the directors individually.

**Question 4**

With reference to Page 64, please explain why the property, plant and equipment, investment properties and investments increased compared to year 2016.

**Response to Question 4**

Mr Ng explained in detail by guiding the shareholders through pages 100 to 116 of the Annual Report 2017.

There being no further questions on the AFS, the AFS for the financial year ended 31 March 2017 together with the Directors' Report and Auditors Report thereon were duly received by the shareholders.

With date, the Executive Chairman concluded the questions and answers session for Agenda 1.

There were no questions raised for Agenda items 2 to 9. All the resolutions tabled at the 33rd AGM for the Company and voted upon by poll were duly passed by the shareholders.

There being no other business, the Meeting terminated at 12.55 p.m. with a vote of thanks to the Chairman.