LAY HONG BERHAD(107129-H)

(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTY-FOURTH ANNUAL GENERAL MEETING ("34THAGM") 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 ONFRIDAY, 28 SEPTEMBER 2018 AT 11.30 A.M.

The Executive Chairman welcomed the shareholders and guests to the 34th Annual General Meeting ("AGM") of the Company.

There being a quorum present, the Executive Chairman declared the Meeting duly convened.

The Executive Chairman notified that the Notice convening the AGM had been sent to all the shareholders of the Company in accordance with the Constitution of the Company. He proposed and the Meeting consented that the Notice of Meeting of 31 July 2018 be taken as read.

The Executive Chairman informed the members that in compliance with the Bursa Securities Listing Requirements, all resolutions as set out in the notice of AGM and tabled at the meeting are required to be conducted by poll and Commercial Quest Sdn Bhd has been appointed as the Independent Scrutineer for the poll voting. The Executive Chairman further informed that for a more efficient meeting at this AGM, the poll will be carried out by way of electronic polling or E-Polling. The E-Polling process for the resolutions will be conducted upon completion of the deliberation of all items to be transacted at this AGM. In this respect, the Share Registrar, Securities Services (Holdings) Sdn Bhd will be the Poll Administrator.

He then proceeded to the Agenda for the Meeting.

1. Audited Financial Statements ("AFS") for the Financial Year Ended 31 March 2018 together with the Reports of the Directors and Auditors thereon

The Executive Chairman informed that as provided for in Section 340(1) (a) of the Companies Act 2016, it was not required that the AFS be formally approved and therefore the first item of the Agenda was meant for discussion only and is not put forward for voting.

The Executive Chairman informed that The Minority Shareholder Watchdog Group ("MSWG") had vide its letter dated 14 September 2018 addressed to the Board of Directors ("Board") sought information and clarification on the Financial Statement for the financial year ended 31 March 2018. 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 the corresponding replies to MSWG were read out:

STRATEGY/FINANCIAL MATTERS

<u>Question 1</u>

On page 6 of the Annual Report, under the Management Discussion and Analysis (MD&A), it was stated that the retail operation is concentrated only in the state of Sabah. Retail operation registered higher losses in FY2018 (FY2018: loss of RM1.6 million; FY2017: loss of RM1.4 million) despite higher revenue (FY2018: RM140.4 million; FY2017: RM124 million).

(i) Why the retail operation is concentrated only in Sabah and are there any plans to expand geographically?
(ii) How will the Group strategies to turnaround the operations and when is it expected to be profitable?
(iii) To what extent will the abolishment of GST impact the business going forward?

Response to Question 1

(i) The retail business is only concentrated in the state of Sabah is due to the fact that this kind of business in the country is presently overcrowded and dominated by foreign big boys in the like of TESCO, GIANT and AEON in which we are not in the position to compete financially in West Malaysia. Another major consideration in that each of our store size is small in nature ie between 20,000-30,000 sqft in retail space and are all located in sub urban towns in Sabah where the foreign big boys are not interested thus reduced competition. Moreover, due to the geographic location, we are utilizing these stores to market the Group's processed chicken and related chicken products to reach the end consumers in the state.

(ii) To turnaround the operation, the management has reduced the size of the retail area by 30% for all new stores set up thus reducing its rentals and operating cost. Inventory levels will be monitored very closely as to focus more on cash flow and logistic cost. Higher concentration on fresh products where margins are higher and control its inventory shrinkages by implementing perpetual inventory counts. With these measures taken, we expect this division to break even in financial year ending 31 March, 2019.

(iii) The impact are the additional software cost incurred on converting the online retail computer system from GST back to SST and the documentation problems on unsold goods return back to suppliers and the subsequent adjustments to costing/pricing of the retail items.

Question 2

Based on the information in the MD&A on pages 6 to 8 of the Annual Report, the Group has been increasing its capacity for layer and broiler farms. It appears that there has been strong demand for eggs and broilers.

(i) Please share on the current demand and supply and the outlook?
(ii) Please brief on any plans for further expansion, timeline estimated amount of capital expenditure to be incurred.

Response to Question 2

(i) Given the country continuous growth in population to now about 30.6 million people (source from MIDA, July report on Food industry) and a large amount of foreign workers in the country, the demand for eggs and chicken will be ever increasing as the above products are the cheapest source of protein and is consumed by all walk of life irrespective of race or religion and it is recession proof. The current production by existing poultry players in the country are sufficient to meet the country's needs with occasionally abrupt shortages/surpluses due to outbreak of diseases, inclement weather and festive seasons. Based on the economic report from the Ministry of Finance 2017/2018 Chapter 3, the livestock industry sub sector (poultry, eggs and cattle) grew by 3.9% during the first half of 2017 (January to June).

(ii) To further meet the internal demand for processed chicken meat for our 49/51% joint venture company, NHF Manufacturing (Malaysia) Sdn Bhd, we are investing an additional RM30.00 million in capital expenditure in the form of construction of an additional broiler farm in TanjongKarang in Kuala Selangor district and the upgrading of the existing feedmill from present production capacity of 13,000 to 20,000 metric tons per month. Included in the above, we are also setting up a second pasteurized egg processing facility in Johor. The above are currently work in progress and are scheduled to be fully operational by financial year ending 31 March, 2019.

Question 3

The revenue in the food processing-chicken products division increased to RM112.28 million or 37% in FY2018 compared to FY2017 due to the increase in off-take of frozen chicken meat by distributors and hypermarkets/Supermarkets nationwide. A portion of the said products sold were sourced from third parties.

(i) Does the significant revenue increase translate correspondingly into higher profit? What are the comparison figures for FY2018 and FY2017?

(ii) Is the substantial revenue increase sustainable in FY2019 and going forward?

(iii) In terms of percentage, what portion of the products sold were sourced from third parties? Are there any plans to expand your own capacity and not be dependent on third parties?

Response to Question 3

(i) Yes, the significant revenue increase of RM112.28 million between the two financial periods had definitely correspondingly improved the profitability of the group. The increase between the two financial years is tabulated as follow:

	RM Mil 2018	RM Mil 2017	RM Mil change
Revenue	415.12	302.84	112.28
Gross Profit	48.76	10.77	37.99

(ii) The substantial increase in revenue is not sustainable because during the year under review, we have managed to secure a onetime large order for frozen processed chicken from a Middle East country through a third party.

(iii) The total amount of frozen processed chicken sourced from third party was RM82.00 million or 19.92% of our total revenue of this division of RM415.12 million. Our present plant slaughtering capacity in TanjongKarang is 60,000 heads based on a two eight hour shifts basis. Based on our current production of one shift of 40,000 heads, we have room for further capacity if there is an immediate need by implementing two shifts.

Question 4

Under the Pasteurised Liquid Egg Division, to meet rising demand especially from the confectioneries and food caterers in the Southern Region and Singapore, the Company has acquired a newly built factory in Iskandar Halal Park, PasirGudang, Johor, to set up its second egg processing facility.

(i) What is the capacity of the second egg processing facility?

(ii) With two facilities, would the Group be able to cope with the current and failure demand or would there be temporary overcapacity?

(iii) Is there a plan to build another facility in the north to cater for the demand in the northern region and/or to cater for more exports?

Response to Question 4

(i) The second egg processing facility capacity is 400 metric tons per month.

(ii) Together with the first facility of the same capacity, the total combined capacities will be raised to 800 metric tons per month. The second facility located down south will serve the customers in Singapore which we are currently supplying from our existing plant in Klang. Further, we have also received many active enquiries from other customers located there and we do not anticipate any excess capacity going forward.

(iii) No plan to build another facility in the North for the time being.

Question 5

We refer to the joint venture company, NHF Manufacturing (Malaysia) Sdn. Bhd. which was incorporated in May 2016 and has since commenced operation. Construction of the manufacturing facility currently located in Selangor Halal Hub, Pulau Indah is in progress and is targeted to be fully operationally by the 4th quarter of the calendar year 2018.

(i) What specifically are the products produced by NHF and where are the target markets including percentage to be exported?

(ii) Please brief on its operating results since commencement?

(iii) What is the capacity of the manufacturing facility currently under construction?

Response to Question 5

(i) The type of food products produced are typically of Japanese in nature and consist of HALAL fried Chicken products manufactured with Japanese ingredients and flavors. The percentage for export is targeted at 80% and the balance of 20% is for domestic market. It also target to supply its products to the Olympic Games to be held in Japan in year 2020. The company has also applied to MIDA for tax incentive in the form of Investment Tax Allowance for period of five years.

(ii) To date, the accumulated loss is RM4.12 million which consist mainly of pre-operating, research and development and Japanese Expatriate expenses.

(iii) The planned capacity for the manufacturing facility is 1,600 metric tons per annum.

Question 6

As noted on page 107 of the Annual Report, trade receivables more than 90 days past due and not impaired increased significantly from RM3.3 million in FY2017 to RM7.4 million in FY2018. Total unsecured past due and not impaired trade receivables also registered a sharp increase from RM4.7 million in FY2017 to RM24.9 million in FY2018.

Please explain the reasons for the significant increase in impairment and recoverability of these impaired receivables.

Response to Question 6

The significant increase in trade receivables for the portion of more than 90 days past due but not impaired was due to the one time large order secured for the supply of frozen processed chicken to the Middle East. A large portion of the goods were invoiced in the 3rd and 4th quarter of the financial year ended 31 March 2018 and due to timing issue, the entire two quarters debt have fallen due in the Trade Receivables Ageing list as at the financial year end Balance Sheet date as at 31 March 2018. As at to date, a major portion of the trade receivables amounted to RM62.92 million or 76.08% have been settled leaving a balance of RM14.78 million which will be settled progressively soon.

Question 7

We refer to Page 122 of the Annual Report, on the project management fees of RM3.8 million recorded in FY2018.

Please elaborate on this income. Is such income expected to recur in FY2019 and going forward?

Response to Question 7

The fee received was for project management to build a layer farm for a third party in Timor Leste. It is a one time in nature.

CORPORATE GOVERNANCE

Question 1

Practice 3.1 of the MCCG requires the Board to establish a Code of Conduct and Ethics for the Company which should articulate acceptable practices and guide the behavior of directors, management and employees in accordance with Guidance 3.1 of the Code.

As reported in the CG Report, the Group has in place a Code of Ethics for Directors based on two elements which are fiduciary duties and use of reasonable care, skills and diligence.
Has the Board established a Code of Conduct & Ethics to articulate acceptable practices and guide the behavior of management and employees?

Response to Question 1

The Board has yet to set up this Code of Conduct and Ethics and will initiate this as soon as possible.

Question 2

The Company in its Corporate Governance Report stated that it has departed from Practice 7.1 in regard to detailed disclosure on named basis for the remuneration of Individual Directors.

MSWG wish to highlight that this is also in breach of Appendix 9C, Part A (11) of the Main Market Listing Requirements (“MMLR”) which states that the remuneration of directors of the listed issuer (including the remuneration for services rendered to the listed issuer as a group) on a named basis, stated the amount received or to be received from the listed issuer and on a group basis respectively. The disclosure must include the amount in each component of the remuneration (e.g. directors’ fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on an estimated money value) for each director.

Response to Question 2

Noted the advice and the Board will discuss this governance matter in the forthcoming Board meetings by working toward complying in the future annual reports.

Question 3

MSWG note that the total directors' fees for FY2018 was RM505,000 as stated in Note 33 to the Financial Statements on page 128 of the Annual Report whilst the directors' fees stated under Resolution 2 in the Notice of Annual General Meeting was RM314,250.

Please explain the different figures.

Response to Question 3

The differential of (RM505,000-RM314,250)=RM190,750.00 was due to the following:

(1) Under provision for previous year 2017 of RM109,500.00

(2) Director fee paid in a 50% owned subsidiary company Sri Tawau Farming Sdn Berhad of RM90,000.00.

AGM

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

Question 1

Mr Charles (Shareholder) enquired on what is the effect of H1N1 to the Company?

Executive Chairman replied that it happened only in Sabah and there was no impact to the Sabah's farm as well as the whole operation of the Group.

Question 2

Mr Charles enquired on what is the gross margin was for eggs and frozen products. Will the Company shift the margin from NHF Manufacturing (Malaysia) Sdn Bhd ("NHF") to the Group?

Executive Chairman informed that the gross margin of the eggs production and frozen products were 40% and 25% respectively.

Executive Chairman explained that the Company only holds 49% of the issued share capital of NHF and NHF is operating independently from the Company. In addition, various products for both entities are differ and Lay Hong will continue to have their own products which will be different from NHF.

Question 3

Mr Karishnan (Shareholder) noted that the Company had retaining earnings but the payment of dividends had dropped and therefore, what is the Company's intention with regards to the usage of the retained earnings.

Mr Ng (Executive Director) informed that the Company has reserved the fund for future expansion.

Question 4

Mr Karishnan enquired on how the Directors paid the fine of RM750,000 imposed by Bursa Malaysia Securities Berhad ("Bursa Securities").

Mr Ng informed that some of the Directors of the Company had been publicly reprimanded by Bursa Securities on 20 June 2017. The Company did not paid the fines, all the Directors involved paid the fines personally.

Question 5

Mr Karishnan enquired on what was the short term investment mentioned in the Annual Report.

Mr Ng replied that the Company invested in a unit trust fund and it was a temporary fund for purchase of stocks from suppliers for supermarkets.

Question 6

Mr Ho enquired on how the Company managed the return when the borrowings are increased compared to lower receivables.

Mr Ng replied that the Company has to improve the revenue stream. The exercise of ESOS and investment of equities will assist in generating fund for the Company.

Mr Ng added that the Management always exercised caution in using the Company's funds and most of the funds were used for expansion of business.

Question 7

Mr Ho requested the Board to elaborate further on the other operating income of project management fees of RM3.8 million.

Mr Ng replied that the fees received from project management to build a layer farm for a third party in Timor Leste. It was a one-time expenditure nature.

Question 8

Mr Ng (Shareholder) noted that the total employees of the Company as at 31 March 2018 stood at 2,419 persons and he enquired as to why the Company needs so many employees.

Mr Ng replied that the increase of manpower was mainly due to expansion of farms in Sabah and for hypermarkets.

Question 9

Mr Ang (Shareholder) enquired on the view of the Board in respect of foreign currencies fluctuation risk?

Mr Ng replied that the major raw materials purchase such as corn and soy beans and 15% of the sales of table egg proceeds are transacted in foreign currencies such as US dollar and SGD dollar respectively. As such, the Group is exposed to currency fluctuation risk. Any unfavorable fluctuations in foreign exchange rate may have an adverse impact on the Group's financial performance and profitability.

The Group does not enter into any financial instruments to hedge against any foreign currency as the transactions are not that significant. However for purchases of corn and soya, the Group takes a three (3) to six (6) months position with the local importer who in turn undertakes the currency risk upon himself. The Group will pay a small premium on the risk passed on to them.

Despite the Company's effort to minimise the foreign exchange risk, there are no assurance that any future significant fluctuations in foreign currency will not have an impact on the financial performance.

Question 10

Encik Hashim (Shareholder) enquired on whether the Company may consider issuing ICLUS or Right Issue?

Mr Ng replied that the Company has no intention to proceed with these for the time being.

Question 11

Encik Hashim enquired as to why the substantial shareholder and Directors disposed substantial amounts of their warrants?

Mr Yap (Executive Director) replied that if they exercise their warrants to convert to ordinary shares, they will holding over 33% of the voting shares which might trigger take-over rules. However, they did not have such intentions to make any general offer.

There being no further questions on the AFS, the AFS for the financial year ended 31 March 2018 together with the Directors' Report and Auditors Report thereon were duly received by the shareholders.

With date, the 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 34th AGM for the Company and voted upon by poll were duly passed by the shareholders.

There being no other business, the Meeting terminated at 1.30 p.m. with a vote of thanks to the Chairman.