



LY CORPORATION LIMITED
Company Registration no. 201629154K
(Incorporated in the Republic of Singapore)

**RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION
(SINGAPORE)**

The Board of Directors of LY Corporation Limited, (the “**Company**” and together with its subsidiaries, the “**Group**”) would like to provide its response to the questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) relating to the Company’s Annual Report (“**AR2022**”) for the financial year ended 31 December 2022 (“**FY2022**”) and its appendix issued on 10 April 2023 (“**Appendix**”).

Question 1

In FY2022, the Group reported a net profit of RM12.4 million, a significant improvement from the RM7.2 million loss in the previous year. This performance was primarily driven by a 23.9% increase in revenue from RM59,000 to RM73,000, due to changes in the product mix and a stronger USD to RM exchange rate. In addition, the group shipped a slightly higher number of containers, rising from 3,207 to 3,220.

As a result of an internal restructuring, Leyo Manufacturing Sdn Bhd (“**LEM**”) became an indirect wholly-owned subsidiary of the Company. At the time of the share transfer, LEM had net total assets of RM(3.32) million.

(i) Can management help shareholders better understand the challenges faced by LEM?

Response:

Although LEM was a 51%-owned subsidiary of the Group prior to the internal restructuring, LEM has been independently managed with its own design and innovation team and production team. LEM’s CEO has strong design and innovation background and LEM’s patented innovations has attracted and diversified the Group’s customer base. However, the production team and progress of LEM did not achieve the production operating efficiency expected by the Group. After reviewing the production operating processes of LEM and discussing with LEM’s management, the Group believes that it is in the interest of the Group to transfer the production team and process of LEM to be under the supervision of LY Furniture Sdn Bhd (“**LYFSB**”). This way, the design and innovation team of LEM can focus on their core competency while the production team and process of LEM under the supervision of LYFSB will help to improve the production operating efficiencies of LEM. The Group has seen improvement on the production operating efficiency of LEM since the internal restructuring.

(ii) Can the board also explain why taking over of 100% of LEM would be beneficial for the group when the group already had control prior to the restructuring?

Response:

As explained above under item (i), the involvement of the management of LYFSB in LEM is simplified when it is 100% owned without interference/differences in opinion from other parties (when it is 51% owned). This improves on the focus and specialisation of the production of LEM and ultimately on operating efficiencies. It is only beneficial to the Group when such improvements are 100% accrued to the Group.

- (iii) Would the Group now be fully responsible for LEM's losses instead of the previous 51% share?**

Response:

The Group will be fully responsible for LEM's profits or losses as there is no longer any non-controlling shareholders from the date of the internal restructuring.

- (iv) Would LEM require an injection of capital from either the company or LY Furniture Sdn Bhd?**

Response:

There is no immediate intention for additional injection of capital from the Company or LYFSB. However, the Company will review the liquidity needs of the Group (including LEM) and take such actions as required in the interests of the Group.

- (v) What are the management's priorities for improving the operational and financial performance of LEM in the next 18-24 months?**

Response:

Management's priorities is to improve on the production operating efficiency of LEM to be on par with LYFSB. The Group believes that the financial performance of LEM will improve with better production operating efficiency.

- (vi) The Group has begun manufacturing and exporting kitchen cabinets to a customer in the USA. Can management provide further details on the market entry strategy, including the marketing efforts, if any?**

Response:

In FY2021, the Group started out with a sub-contracting arrangement to supply the main framework of kitchen cabinets to a local furniture manufacturer. Subsequently, via a referral, the Group started manufacturing and exporting the kitchen cabinets directly to an overseas customer. The direct export of the kitchen cabinets can generate better margins for the Group. The Group is participating in more local and international trade fairs and exhibitions to generate more awareness of our Group and our products and to keep abreast with market trends and development.

- (vii) What is the size of the addressable market for kitchen cabinets?**

Response:

The Group has not commissioned any research on the market size for kitchen cabinets. However, the Company note from google searches that, based on a kitchen cabinets market report published by Mordor Intelligence (published date unknown), the kitchen cabinets market is estimated to be valued over USD 160 billion in 2025, and it is projected to register a CAGR of 6% in the forecast period from 2023 to 2028 (Source: <https://www.mordorintelligence.com/industry-reports/kitchen-cabinets-market>).

Question 2

As stated in the AR2022, the Group was negatively impacted by a net foreign exchange loss of RM2.4 million resulting from USD loans, which occurred as the USD strengthened against the Malaysian Ringgit.

- (i) Can management provide more information on the USD loans, such as the outstanding amount and maturity date? In addition, can management show how the net foreign exchange loss of RM2.4 million was calculated?**

Response:

The information on the USD loans and borrowings such as outstanding amount and maturity date can be found in Note 18 (ii) and (iii) on page 120 of the AR2022. The net foreign exchange loss consists of both realised and unrealised foreign exchange loss with the components of receivables, payables, loans, and cash and bank balances.

- (ii) Was the currency mismatch considered by the board as part of the Company's risk management strategy?**

Response:

The Group obtains USD borrowings to finance its capital expenditure and working capital because of lower interest rate in respect of USD borrowings as compared to RM borrowings back then when the Group first drawdown the USD loans. In addition, the Group is also able to use its excess sales proceeds in USD to repay the USD borrowings.

- (iii) What is management's view on the strength of the Malaysian Ringgit and the US Dollar?**

Response:

The management is unable to comment on the strength of the Malaysian Ringgit and the US Dollar as there are many factors that will impact the strength of both currencies, in particular, the economic uncertainties that is taking place globally.

- (iv) Has the Group implemented any hedging strategies to mitigate its interest rate risks?**

Response:

The Group does not implement any hedging strategies to mitigate its interest rate risks as interest expenses accounted for less than 1.0% of the Group's total costs and expenses in FY2021 and FY2022.

The Group drew down the USD denominated loan as a natural hedge against the Group's foreign currency exposure as the Group's revenue is mainly denominated in USD.

- (v) Would the audit and risk committee ("ARC") look into ways to more effectively manage the Group's interest rate risk going forward?**

Response:

The Group's gearing ratio (calculated based on total loans and borrowings and lease liabilities over total equity) is at 0.231 times as at 31 December 2022 as compared to 0.299 times as at 31 December 2021. The Group can reduce its interest rate risk by reducing its borrowings and lease liabilities. However, the Company believes that loans and borrowings are instruments which the Group can use to its advantage.

The Company wish to highlight that the interest expenses accounted for less than 1.0% of the Group's total costs and expenses (comprising cost of sales, selling and administrative expenses, finance costs and other expenses).

Question 3

The Company disclosed the details of the interested person transactions (“**IPTs**”) for FY2022 on page 69. This is required pursuant to Rule 907 of the Catalist Rules of SGX-ST.

The aggregate value of all IPTs conducted under shareholders’ mandate pursuant to Rule 920 (excluding transactions less than \$100,000) with Lean Shern Furniture Sdn Bhd (“**Lean Shern**”) amounted to RM39.5 million.

The Company has also proposed the renewal of the IPTs general mandate, which will be up for shareholders’ approval at the upcoming annual general meeting on 28 April 2023.

The appendix to the AR2022 containing details of the proposed renewal of the IPTs general mandate can be accessed here: <https://links.sgx.com/FileOpen/LY%20Corp%20-%20Appendix%20-%2010%20Apr%202023.ashx?App=Announcement&FileID=753060>

- (i) Can management provide shareholders with an overview of the transactions with Lean Shern, including type, nature, and value of the transactions?**

Response:

Kindly please refer to Section 2.5.2 set out in page 11 contained in the Appendix for the type and nature of the transactions with Lean Shern. Kindly please refer to page 69 of the AR2022 for the value of the transactions with Lean Shern for FY2022.

The Group sells raw materials, indirect materials and/or semi-finished goods to Lean Shern for their processing and purchase of the semi-finished goods from Lean Shern. The amount in FY2022 was higher as the Group had higher value transactions in FY2022.

- (ii) Can the ARC explain the measures it has in place to ensure compliance with the methods or procedures for determining the transaction prices under the IPT General Mandate?**

Response:

Kindly please refer to Section 2.5.4(a) set out in pages 12 and 13 contained in the Appendix for the methods and procedures as well as periodic internal reviews and reviews by internal auditors in relation to the Mandated IPTs.

- (iii) What was the extent of the ARC’s involvement in the periodic internal reviews of the IPTs to ensure that they are being carried out on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders?**

Response:

Quarterly as set out in Section 2.5.4(d) set out in page 15 contained in the Appendix.

- (iv) **What skills and industry insights do ARC members possess that enable them to fulfil their fiduciary duty of safeguarding against IPTs that may be detrimental to the interests of the Company and its minority shareholders?**

Response:

The Group's internal auditors will carry out an annual review on the IPTs which will then be reported to the ARC. Members of the ARC also possess the relevant industry knowledge or experience, and customer-based experience or knowledge.

ON BEHALF OF THE BOARD

Tan Yong Chuan
Executive Director and Chief Executive Officer
24 April 2023

*This announcement has been prepared by LY Corporation Limited (the "**Company**") and its contents have been reviewed by the Company's sponsor, Xandar Capital Pte Ltd (the "**Sponsor**").*

*This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

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