



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 state the following in response to the questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) relating to the Company’s Annual Report for the financial year ended 31 December 2019 (“**Annual Report 2019**”) and Appendix issued on 14 April 2020.

Question 1

As noted in the message to shareholders, the Group made several first in FY2019, which included:

- First shipment of millwork products: The Group diversified into the manufacturing of millworks products which are categorised as building materials. The first container of millwork products was shipped in January 2020 after a successful RM5 million refurbishment of two of the existing factories and building a millwork production line.
- Original brand manufacturing (“OBM”): With the acquisition of Cubo Sdn. Bhd.’s business and assets in January 2019, the Group own the production and brand names of the EZBO easy-to-assemble and space-saving furniture line, as well as the CUBO custom-made line.

(i) Can the Board help shareholders understand if the diversification into millworks was mentioned in the offer document?

Response:

The opportunity to expand into millworks arose in early 2019, after our initial public offer, as a result of the US-China trade war where the Chinese suppliers of millworks faced tariffs on their products to their customers in the United States of America (“US”), thus affecting the commercial viability of supplying millworks from China to the US. Arising from this development, US customers started to source for alternative suppliers from various countries including Malaysia upon which we took the opportunity to enter into this business. Given the above timeline, this was not mentioned in our Offer Document dated 18 January 2018.

We would like to clarify that the diversification into millworks is not a business diversification but rather, an expansion into a new product line, which does not materially change the risk profile of the Group.

(ii) Given that millwork products are considered building material, would the Group be moving into an area that is highly commoditised and possibly commanding lower margins?

Response:

The Company is aware that the margins of millworks are lower than the existing bedroom furniture business. However, we proceeded with this expansion based on the following reasons:

- a. We anticipate that the high-volume orders will be profitable to the Group. Over time, we believe that the economies of scale will enhance these margins and profitability.

- b. The Group's bulk purchase of raw materials (i.e. timber products being the main item) for both existing business of our Group and millworks will lower the cost of raw materials. The diversified timber species used in millworks will also benefit the existing businesses by broadening the usage and knowledge of more timber species.
- c. The millwork products are intermediate products of our furniture business (subject to changes to certain specifications and quality), thereby making it easier for us to access this sector. While there is certain level of know-how and expertise involved in millworks, the Company believes that such technical expertise can be learnt in a short period of time considering that our employees are familiar with wood-based products.

(iii) The Group's OBM business comes under its 51% subsidiary, Leyo Holdings Sdn. Bhd. which reported a loss after tax of RM(2.9) million. Revenue for the year was RM4.5 million. Can management elaborate further on its plans to scale up the EZBO series profitably? What is the volume/scale that would allow it to breakeven?

Response:

In FY2019, we invested more than RM4.0 million to purchase and upgrade machinery and equipment for the OBM business. We also moved to a new production facility in Batu Pahat, Malaysia which has more than doubled the operating space of our previous factory. These initiatives allow us to increase our production capacity, optimise our operations and grow our OBM business.

The EZBO line has gained some traction among consumers in Japan, spurred by our marketing efforts via wholesale, retail, and online channels. Moving forward, we intend to explore more markets in the Asia Pacific region and intensify our marketing efforts for Japan and South Korea. Some of the specific planned initiatives to scale up operations are as follows:

- a. attend trade exhibitions and fairs in various countries in Asia to increase the awareness of our brand and products and to better understand market trends and developments;
- b. meet up with various retailers and wholesalers in various Asian countries to promote our brand and products;
- c. cross sell the EZBO product series to LY Furniture Sdn Bhd's custom wooden bedroom furniture customers in the US; and
- d. explore the possibility of establishing an e-Commerce platform to sell our products online.

As the OBM business is still at an early stage (second year), we are focused on building brand equity. Given the inherent uncertainties, it is not feasible to provide a breakeven point that can be reasonably supported at this juncture.

It is worth noting that our OBM business has been affected by Malaysia's Movement Control Order and the demand dampening effect of the Covid-19 pandemic. As such, we believe that the growth of the OBM business will depend on the recovery of demand for our products when the impact of the pandemic is contained. Nevertheless, taking a long-term view, we are optimistic that this business will continue to grow and become a key pillar to our Group's business.

Question 2

As noted in the Consolidated statement of cash flows (pages 52 & 53), the Group generated net cash flows from operating activities of RM8.8 million while investing RM33.9 million in FY2019. Bulk of the investment went into purchase of property, plant and equipment (RM21.6 million) and acquisition of business (RM13.2 million). With an addition RM3.6 million used in financing activities, the Group's total cash and cash equivalents at the end of the year stood at RM36.1 million.

- (i) **Can management help shareholders understand if the heavy investment phase into capital expenditure has been completed? Going forward, what is the expected/steady-state level of capital expenditure for maintenance?**

Response:

We have invested substantially into refurbishing the Group's factories and building new production lines for the new businesses in FY2019. We do not expect any major new capital expenditure in FY2020.

The capital expenditure for maintaining the Group's operating capacity is also not expected to be material in FY2020.

- (ii) **How much working capital is needed to support the millwork products business and the OBM business? Does the Group have sufficient resources to support these new businesses?**

Response:

The millwork products business and the OBM business will still require working capital support in the near future and the Group is expected to have sufficient resources for this purpose.

The Group anticipates that both of these businesses would be self-supporting eventually.

- (iii) **With the COVID-19 outbreak, does management expect significant delays in collecting its trade and other receivables?**

Response:

Based on our current assessment, the Group does not foresee any material collectability issues with its trade receivables.

Question 3

On 19 November 2018, the Company announced that an unexpected collapse had occurred at the mezzanine floor of one of its factories in Batu Pahat, resulting in the unfortunate death of an employee.

The Group was charged with an offence under Section 15(1) of the Occupational Safety and Health Act 1994 for failure to provide a safe mezzanine floor. The Sessions Court of Batu Pahat, Johor, Malaysia held that the Group shall be liable to a fine of Ringgit Malaysia Forty Thousand (RM40,000) due to the offence under Section 15(1) of the Occupational Safety and Health Act for failure to provide a safe mezzanine floor in its premise resulting in a fatal incident.

- (i) **Can the Company help shareholders understand if the mezzanine floor was approved and structurally sound prior to the accident? Also, was the mezzanine floor overloaded?**

Response:

We have disclosed the details of the accident in the Group's sustainability report for FY2018 which was published on 28 May 2019 on SGXNet. Kindly refer to the said report on SGXNet. The mezzanine floor was approved by the local authority in May 2006.

- (ii) **Has the Board carried out an investigation and reviewed all of the Group's 19 factories and warehouses to ensure that they comply to all occupational safety standards and building regulations?**

Response:

The management has reported to the Board that they have reviewed the Group's factories and warehouses to ensure that they comply with occupational safety standards and building regulations. The other mezzanine floors have been redesigned and modified according to an architectural plan endorsed by a Professional Engineer.

- (iii) **Since 2018, what improvement has management made to the Group's safety training?**

Response:

The Board and management recognised the need for continuous training to achieve zero cases of injuries in the workplace. Since 2018, we have a qualified Safety & Health Officer, who is a valid green book holder approved by the Department of Occupational Safety & Health Malaysia, to ensure that the Company complies with the Department's rules and regulations, and ensures the safety, health and welfare of workers.

In FY2019, we sent our employees and workers to various training courses such as chemical handling, first aid and cardio-pulmonary resuscitation ("CPR"), forklift training, ISO45001:2018 awareness, security awareness and visitor trespassing trainings. We received our certification on ISO45001:2018 at the end of November 2019 where we were certified to have organised our documentation and management system on safety & health in accordance with international standards.

- (iv) **How does the Board/management monitor the level of compliance of the Group's safety practices and policies?**

Response:

The Board and management have adopted, *inter alia*, the following practices and policies to monitor and ensure workplace safety and health:

- a. establish the Safety and Health Committee ("SHE Committee") to ensure safety policies are understood and adhered by all employees and workers;
- b. equip and keep our employees' up-to-date with the latest safety training so as to strengthen their workplace health and safety awareness;
- c. ensure standard operating procedures for use of machinery are adhered to by the workers through regular inspection;
- d. review on a quarterly basis and implement new ways to improve workplace safety via dialogue and feedback/reports from employees; and
- e. conduct management review meeting on a yearly basis to refresh management on the requirements of ISO45001:2018 to stay relevant.

As disclosed in its Sustainability report, the Board recognises that it sets the tone for all sustainability efforts. The Group's sustainability efforts are supported by the Sustainability Steering Committee to ensure successful implementation of our sustainability initiatives. The Group carried out a materiality assessment through various engagement sessions involving management and executives and came up with the following materiality assessment.



(Source: 2019 Sustainability Report; emphasis added)

- (v) **Would the Board help shareholders understand if it had approved the materiality assessment?**

Response:

The FY2019 sustainability materiality assessment was approved by the Board. In conducting the assessment, the Board held detailed discussions with management, as well as considered the inputs from an independent consultant.

- (vi) **Given the unfortunate incident in 2018, did the Board deliberate at lengths on the importance of the “Workplace Safety & Health” material topic? It would appear that more importance has been placed on economic performance.**

Response:

It is not accurate to suggest that the Group prizes economic performance over the safety and health of our employees. While the Group is committed towards achieving strong and sustainable economic returns for our shareholders, we do not singularly pursue strong economic performance at the expense of our workers’ welfare.

We wish to clarify that in the sustainability material assessment chart above, the Workplace Safety & Health material topic is assessed to have a more significant impact than the Economic Agility material topic.

As mentioned in our response to Q3(v), the Board had held detailed discussions with management regarding the materiality assessment, which includes the “Workplace Safety & Health” material topic.

In 2018, the Group reported 22 injuries and a fatality. In 2019, while there was no fatality, the number of injuries increased to a total of 28 cases.

(vii) Would the Board consider how it could demonstrate its commitment and set a stronger tone to provide its workforce with a safe working environment?

Response:

Although the number of individual reported injuries increased from 22 in FY2018 to 28 in FY2019, our overall injury rate (per 1,000,000 manhours worked) decreased from 6.65 in FY2018 to 6.3 in FY2019.

The Board seeks to safeguard the interests of all stakeholders, including employees of the Group. As such, the Board continues to strongly emphasise and advocate the health and safety of employees. In addition to the practices and policies highlighted in our response to Q3(iv), the Board continues to look for ways to improve workplace safety and has taken the following safety measures to date:

- a. standard operating procedures and work instructions have been in place and communicated to our employees;
- b. on-going risk management evaluation on work processes to identify any potential risks and opportunities are conducted; and
- c. on-going briefing and training on safety and handling of machineries are conducted internally and externally.

ON BEHALF OF THE BOARD

Tan Yong Chuan
Executive Director and Chief Executive Officer
18 June 2020

This announcement has been prepared by LY Corporation Limited (the "Company") and its contents have been reviewed by the Company's sponsor, UOB Kay Hian Private Limited (the "Sponsor") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalyst.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Lance Tan, Senior Vice President, at 8 Anthony Road, #01-01, Singapore 229957, telephone (65) 6590 6881.