Leong Hup International Berhad
Registration No. 201401022577 (1098663-D)
(Incorporated in Malaysia)

Summary of Key Matters Discussed at the Sixth Annual General Meeting ("6th AGM") of Leong Hup International Berhad ("LHI" or "the Company") held at Connexion Conference & Event Centre, The Zenith function room (Level M1), The Vertical, Bangsar South City, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Friday, 26 June 2020 at 10.30 a.m.

During the question-and-answer sessions of the 6th AGM, certain questions submitted by LHI's shareholders prior to and during the 6th AGM were duly responded by the Group Chief Executive Officer, Chief Executive Officer of LHI's Malaysia operations, and Group Chief Financial Officer. The questions and responses (including those not addressed during the 6th AGM due to time constraint) have been summarised as key matters discussed in the ensuing section of this document.

The following questions were raised prior to the 6th AGM:-

Q1) Mr Chew Hem Poo @ Choy Nean, a shareholder, enquired on the Company's actions to overcome the excessive supply of live birds & other related products to protect LHI's interests so that the selling prices would not fall below their costs of production (with comparison drawn with the global crude oil industry supported by the cartel of oil-producing nations, OPEC) and the prospects of the poultry farming industry in Malaysia.

A1) OPEC and OPEC+ are cartels to restrict supply to the market and in the process of push up selling prices to benefit its members. Coordinated actions are against the law in most countries including Malaysia and Singapore, which are regulated by the Malaysia Competition Commission and the Competition and Consumer Commission of Singapore. OPEC+ is a really unique transnational organisation that could not be duplicated within national borders. As for poultry industry, with some exceptions (such as organic farming) poultry is very much a commodity business and the industry compete by being as efficient as possible while taking appropriate actions to manage and mitigate risks.

Periodic demand-supply imbalance is an inherent part of free market whereby the strong players survive challenges while the weak ones becomes stagnant or exit the industry after losses which will have the effect of limiting/reducing future supplies, thus allowing the industry to achieve equilibrium over the long term as population and per capita consumption continue to grow in tandem with Gross Domestic Product (GDP).

Over the longer term, LHI and its subsidiaries ("LHI Group" or "Group") will move downstream, galvanised by the recent acquisition of The Baker's Cottage Sdn Bhd's ("TBC") business. TBC's roasted whole chickens which were selling at RM10.90 each has been very well received in the market and the business-to-consumer ("B2C") distribution channel allows the Company to better manage future demand-supply imbalance while offering customers value-for-money, ready-to-eat ("RTE") poultry products.

For more information on TBC and its expanding network of outlets in Peninsular Malaysia, please refer to TBC's website at: https://thebakerscottage.com/.

Q2) Mr Yoong Kwee Soon, a shareholder, enquired how LHI could make use of TBC to integrate vertically downward to capture incremental value-add from LHI's poultry business, taking into consideration of TBC's poor performance in the past financial years.

A2) The yield from roast chicken (cost at RM2.70/kg of chicken) is higher compared to live birds (cost at approximately RM2.00/kg, being the lowest ex-farm spot price recorded for broiler chicken April 2020). TBC has contributed profits to LHI Group with same-store-sales having markedly improved in 2020. For example, TBC recorded sales of up to 14,500 roast chickens per day at its peak in May 2020.

Q3) Mr Lim Sing Poh, a shareholder, enquired on the impact of Covid-19 to LHI Group and its mitigation plan.

A3) In Malaysia, the industry supply had increased faster than demand growth and as a result, the price was depressed.

The same situation occurred in Indonesia as government-mandated culling of hatching eggs was not sufficient to reduce the supplies to the market.

In Vietnam, due to the African Swine Fever (“ASF”) in early 2019, many farmers switched to poultry farming. By late 2019, the issue with ASF was mostly resolved and consumers went back to eating pork and price of poultry was affected with drop in demand.

In Singapore, people are more conscious with Covid-19 outbreak and demand from hotels and restaurants dropped once the first Covid-19 case in Singapore was confirmed.

The first half of the second quarter of 2020 was dismal in view of the respective lockdowns in each of the Group’s markets, affecting demand that caused prices to drop significantly. A lot of farmers subsequently reduced farming quantity to cut losses such that when the respective lockdowns were relaxed in May, supplies became very tight and as demand started to recover, the ensuing demand-supply imbalance resulted in significantly higher poultry selling prices.

The LHI Group has not lost any major customers in the first quarter ended 31 March 2020 (“1QFY20”) due to Covid-19 pandemic while at the same time, it has tightened the threshold for doubtful debt provisions for 1QFY20. There was no material impairment in 1QFY20. However, due to the continuing impact of Covid-19, Management is monitoring the status of receivables closely.

Notwithstanding the above, the LHI Group’s strategy remains the same, although timing and priority in respect of the group’s capital expenditures (“capex”) may change. In Malaysia, the group is galvanising the expansion of TBC to integrate further downstream.

The following questions and answers were dealt with during the 6th AGM:-

Q1) Mr Lew Tuck Wai, a shareholder, enquired whether the Management has any plan to refinance the loans in Vietnam and Indonesia to Malaysia and Singapore in light of the current low interest rate environment in Malaysia and Singapore. Based on the information contained in the Annual Report 2019 of the Company, the weighted average effective interest rate of term loan for Vietnamese Dong and Indonesia Rupiah is in the range of 7% and 10% respectively.

A1) Management has no intention to refinance the loans in Vietnam and Indonesia to Malaysia or Singapore. Further, refinancing of loans to from one country to another may expose the LHI Group to foreign exchange risk. LHI's businesses in each country earn revenue in their respective currencies and can fund their own operations.

Q2) Mr Chew Thai Guan, a shareholder, enquired on the following:-

(a) The plan to improve the share price of the Company given that the share price has fallen substantially ever since its Initial Public Offerings ("IPO"); and

(b) The competitive advantage of TBC against other players in the market and its potential to outperform its competitors.

A2) (a) The US-China trade war and Covid-19 outbreak occurred right after the listing of the Company on the Main Market of Bursa Malaysia Securities Berhad, both of which have had adverse impact on global equity markets and indeed, LHI's share price. However, Management noted that the share price of LHI rose to above 80 sen recently. The Company is currently focusing on business strategy and regional expansion plan. Management believes that share price would reflect the Company's profitability.

(b) The expansion of TBC outlets (from 53 outlets currently to 80 outlets by end-2020, and plan to have 300 outlets by end-2023) will add stability to LHI's earnings stream. TBC's business concept (with roast chicken being its anchor product and priced more affordably compared to other bakeries and/or quick service restaurants) has proven itself as one of the very few retail businesses that is able to increase sales and thrive during the movement control order period ("MCO"). The operating cost of TBC is lower as compared to its competitors due to the synergistic benefits arising from LHI's integrated poultry business. Moreover, TBC's outlets are based in shoplots instead of shopping malls where rentals are significantly lower.

Q3) Mr Kok Wai Keat and Mr Lim Boon Hooi, who are shareholders, enquired on the following:-

(a) The possibility of increasing profit margin of TBC;

(b) The targeted revenue and net profit margin of TBC for financial years 2020 and 2021; and

(c) With the profit margin improvement in TBC, its financial impact to the Group.

A3) Currently, 53 TBC outlets are owned and operated by the Malaysian operations. TBC's roast chicken is selling at a very competitive price, which was made possible by eliminating middlemen along the supply chain. As a result, it gives LHI a competitive advantage over its competitors, and sales volume of TBC outlets during MCO in Malaysia was very encouraging. TBC's same-store-revenue (excluding mooncakes) in May 2020 recorded an increase of 85% as compared to May 2019. The gross profit margin of TBC is approximately 50%. Management plans to have a total of 300 TBC outlets in Peninsular Malaysia by end-2023, with an annual turnover of RM500 million from financial year 2024 onwards.

The group is expected to benefit from TBC's "Farm-to-Plate" business model.

Q4) Mr Saw Hai Earn, a shareholder, enquired on the following:-

(a) How significant is TBC's contribution to LHI in terms of revenue and profit;

(b) The biggest threat in the medium term that will affect the bottom line of LHI;

(c) Whether the Company has any dividend policy; and

(d) The significant difference in the share price of LHI and QL Resources Berhad ("QL").

A4) (a) Contribution of TBC to LHI's revenue is not significant currently given that the revenue of LHI Group for the financial year ended 31 December 2019 amounted to RM6.05 billion. TBC's current focus is on brand awareness and increasing market share instead of profit margin. As TBC continues on its expansion drive, Management plans to have 300 outlets by end-2023 and targets to have sales of 200 roast chickens per outlet per day by end-2023, TBC's revenue contribution to the LHI Group would then be significant.

(b) The biggest threat for LHI was the volatile selling prices of poultry products and its continuing financial impact on LHI Group's livestock business. The impact is further compounded, with LHI bearing additional costs in the event that farms are forced to keep live broilers longer than expected if selling prices continue to be depressed and as such, LHI not being able to sell the live broilers to the market. However, LHI continues to benefit from economies of scale and efficiency gains which contribute to the stability of its operating costs. In the long term, LHI intends to capture further opportunities by focusing on downstream or B2C business, which is expected to provide further earnings stability to the Group.

(c) LHI has a dividend policy of 30% based on LHI's consolidated Profit After Tax and Minority Interests, after taking into account working capital. Other considerations include observing the dividend landscape vis-à-vis the Covid-19 pandemic and the uncertainties it casts on the forward expectations on earnings. The Board of Directors endeavours to declare dividend as and when appropriate.

(d) Apart from livestock production, QL is involved on marine products manufacturing and palm oil activities. In contrast, LHI's core business is feedmill and livestock production. Management noted that QL's share price is an outlier relative to other listed poultry producers.

Q5) Ms Chin Hock Yee, a shareholder, enquired on the cost cutting measures taken by LHI.

A5) LHI's business is categorised under "Essential Product/Service" and that the Group was operating at normal capacity throughout the MCO period. To prepare for the challenging landscape ahead, LHI has deferred new hiring and business expansion (except strategic expansion, for instance, the acquisition of a new feedmill in Vietnam as announced by LHI on 9 March 2020) coupled with reduction in capex for the financial year ending 31 December 2020.

The following questions were not addressed during the 6th AGM due to time constraint:-

Q1) Mr Lew Tuck Wai, a shareholder, enquired whether there is improvement on the prices of chicken and eggs since the first quarter ended 31 March 2020.

A1) The price of broilers was depressed until early May 2020 and then it increased rapidly throughout May as MCO was relaxed by the Government. Price remained high in June 2020. Due to the Covid-19 pandemic, it is much more difficult now to predict into the future as the full impact of the Covid-19 pandemic has yet to fully manifest.

The price of eggs was good when MCO was announced in early March 2020 but began to drop since then and has not improved materially.

Q2) Mr Chua Chin Leong, a shareholder, enquired on the impact of US-China trade war on LHI Group.

A2) The US-China trade war has had a net positive impact on the price of commodities in recent times (before the Covid-19 pandemic), such as corn and soya bean meal used in the Group's animal feed production. The Group's feedmill business operates on a "cost-plus" basis as the industry tends to pass on material cost increases as well as material cost savings to customers. The LHI Group achieves its results by having greater economies of scale, operating efficiency, cost-effective feed formulation, better feed quality as well as provision of a "one-stop package" including doctors to provide veterinary services to customers.

Q3) Mr Saw Hai Earn, a shareholder, enquired whether LHI has pegged its IPO price at a relatively higher price earnings ratio.

A3) As responded above. Management's focus lies on growing the Group's business volume and running the Group's operations efficiently. However, poultry selling prices have seen considerable volatility since LHI's listing which has affected LHI's financial performance since then. To mitigate this, Management is exploring avenues to achieve further downward integration. An example of this is TBC, in which its products carries better value-added margins and price stability.

The IPO price of LHI's shares was in fact below the original price advocated by the investment bankers as the promoters considered the uncertainties arising from the US-China trade war. As a result, the institutional bookbuild was oversubscribed by multiple times as compared to the numbers of shares available for sale.

Q4) Ms Ong Siew Leng, a shareholder, enquired whether the Company has any plan for new upstream business such as chicken essence and wellness.

A4) Chicken essence would be deemed as a fast moving consumer good ("FMCG"). FMCG business requires a totally different set of competitive advantages targeting a different group of customers and consumers. This is not a business segment that Management is considering at this moment.

Q5) Mr Kok Wai Keat, a shareholder, enquired on the following:-

(a) Whether LHI is facing manpower issue due to the rejection of foreign worker pass by the Malaysian Government; and

(b) Whether LHI has any kind of risk management in future to reduce any chance of chicken wipe out in case of any kind of pandemic in the future.

A5) (a) The Group's Malaysia operations are not affected by the shortage of foreign labour in the country, as technology and automation are adequately embedded throughout the processes of the Group's feedmill operations, thereby reducing labour dependency. Similarly, the vast majority of the Group's livestock operations which have over the year been upgraded to closed-house farms require significantly less labour. For example, the ratio of farm worker to broiler farm capacity is now 1 worker to 20,000 – 25,000 birds as compared to 1 worker to 5,000 birds in a traditional open-house farm.

(b) Biosecurity is an important aspect of the Group's business. Among the biosecurity measures adopted by the Group include maintaining strict sanitisation of farm workers, "all-in-all-out" farm practices, adopting the closed-house systems for flock management. Further details on the Group's biosecurity measures are set out in the Sustainability Statement of the Group, pages 44 and 45 of the Annual Report 2019.

Furthermore, the Group's farms are well spread out across many locations/states within each country, while the Group's poultry farming operations are geographically diversified in 4 countries within South East Asia, and as such, there is little concentration risk to the Group's livestock business.

Q6) Mr Chew Thai Guan, a shareholder enquired the feasibility of investing in "Ready to Eat Chicken" which could be sold through various channels instead of opening more TBC's outlets which requires higher capital investment.

A6) In the context of TBC, Management noted that approximately 25% of the prices consumers pay for purchases through delivery platforms accrues to the delivery platforms. In this respect, TBC would have to increase its selling prices by the same proportion in order to preserve its margins. While this would still be cheaper than its competitors, it would depart from TBC's targeted price points.

Other channels for longer term product storage such as supermarkets' chilled or frozen food segments require even higher total profit margin once the cost of mailers, gondolas plus other fees, credit terms and product damages are factored in.

As such, the present B2C business model is preferred as LHI bypasses the middlemen. In Singapore, the Group produces RTE products for two leading chains of convenience store. However, these are two totally different business segments and considerations which is not easily duplicated in other countries.