YLI Holdings Berhad
24th Annual General Meeting held at Concorde Ballroom, Lobby Level, Concorde Hotel, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 28 August 2019

REPLY TO QUESTIONS RAISED BY THE SHAREHOLDERS AT AGM

The following question 1 to 5 was raised by Mr. Yap Kim Tong, a proxy holder and the Board responded as follows:

Question 1:

Can the Company provide the slides presentation on the reply to MSWG and performance report of the Group at the next Annual General Meeting?

Reply:

Dato' Samsuri replied that the Company will consider the recommendation from Mr Yap to use slides presentation for the "Question and Answer Session" at the next Annual General Meeting.

Question 2:

How much was the Group's bad debts?

Reply:

Tan Sri Chairman replied that the bad debts of the Company was only 1% of the Group's total collection. Mr Seah added that the bad debt written off was RM274,000 compared to the revenue of the Group of RM113 million, which was only 0.2%. This is because the management has taken serious steps in controlling their collection. Thus, resulting to less than 1% of bad debts.

Question 3:

Does the Group have the manpower and capability to secure jobs and not rely on projects from Government?

Reply:

Dato' Samsuri replied that since the beginning, the Group gets jobs and tenders from both, public sectors and private sectors. As the Group is in pipes and fittings industry, we supply almost 70-80% of the pipes to the state government and water authorities; and the balance for the private sectors. Thus, we cannot run away from the opportunities made available by the Government. As the performance and the nature of business has slowed down, it actually affected the business of the Group, especially this year. For the past 2 to 3 years, the Company managed to secured good contracts and one of them is the Langat 2 project, worth approximately RM97 million, as referred by Mr Yap as the pipes in Kajang. As at this moment, they have supplied almost 60% of the pipes required under the project. He highlighted that they didn't profit from this contract and it was just a service to the country because the price was locked in more than two years ago and since then, the price of raw materials have increased almost 40%. Moreover, the project also faced delay and extended under EOT 1. The Company had tried to negotiate with the main contractor to increase the price and has tried their best but due to bad-timing, the Company was affected badly mainly due to cost and competitive pricing in addition to the slow market.

Tan Sri Zaidee also shared with the members on the contributions made by the independent directors via their networking in Asean and international market. He informed of the available opportunities in Timor-Leste and Bangladesh. He highlighted that these sources of information are shared with the Board to plan for the future, maybe 5 to 10 years ahead.

Question 4:

What is the cost versus the revenue of the Company?

Reply:

Dato' Samsuri replied that even though the Company registered higher revenue this year, the Company still suffered losses compared to last year. This was due to the fact that the contract the Company entered into was locked in for the past two years and become a bad contract because of the increase cost in the raw materials. The Group has mitigated by implementing cost control and is adopting cost plus contract, especially for those contracts in Cambodia due to timing-wise. They have successfully secured a contract of RM10 million from Cambodia using the formula of cost plus contract.

For overseas market, it was still manageable although the demand was lower, especially from Singapore. They are also facing world economic issues due to the trade war between United States of America and China and that has caused the slowing down of their businesses, as well as in Malaysia. The demand for pipes was 20% lower compared to previous year. Most of our pipes are cast in China under OEM arrangement and it was 20% cheaper so the Company can share the profit with their Singapore agents. But as of now, the China government has implemented an anti-pollution policy, where every factory in China needs to stop production for four months in a year. Hence, this has escalated to high cost in importing pipes from China for their Singapore market. Instead of importing from China, they are now looking to import their pipes from India. The Company tried their best to sustain and maintain the business even though they are facing difficult external variables.

Question 5:

Where do you import the raw materials from? Why must the Group trade in USD currency instead of Renminbi?

Reply:

Dato' Samsuri replied that there was only one company in Malaysia that produced hot roll coil and when that company closed down their business, they have to import hot roll coil product from Korea, China and India and consequently caused foreign exchange fluctuations as they need to buy the raw materials using USD currency. But for Singapore market, they are selling it using SG Dollar as it is more stable.

He informed that ductile iron pipe is one of the tax free items to import from China. The Company used to import 30% of the pipes in order to reduce the cost but it is now not applicable because products from China are more expensive due to their anti-pollution policy.

Mr Seah explained that the reason the Group has opted to import pipes from China instead of manufacturing it locally was due to the high cost of producing small size ductile pipes and it was much cheaper to buy them from China. However, since China has started adopting the anti-pollution policy, it has caused the increase in the production cost in China and hence, the Company decided to reduce the import to 10% in order to minimise the cost. For this year, it was further aggravated due to the fluctuations of exchange rate. The Company trades in a mixture of both USD and RMB. However, the choice of currency would depend on situation and suppliers. For example, the hot roll coil suppliers would only accept USD. YLI'S procurement team always practises the best price and best timing policy.

The following questions 1 to 4 were raised by Mr Kow Lih She, a proxy holder and the Board responded as follows:

Question 1:

Are the seminars and trainings attended by the Directors claimable under HRDF?

Reply:

Mr Seah replied that the Group does contribute HRDF and they do look into trainings that are HRDF claimable.

The Company Secretary also added that the directors would only look for trainings from providers that are HRDF registered. In response to the MSWG's comment on the short hour of directors' training, the Board had tried to contain cost in areas that are non-revenue generated.

Question 2:

What is the ratio of foreign workers versus local workers in YLI?

Reply:

Mr Seah replied that the ratio is 1:1. The Group has reduced their intake of foreign workers up to 30% of total workforce in the Group as the Group wants to provide more employment chance to local people. Normally, the foreign workers will stay with the Group for 5 to 6 years and he opined that the duration is enough to train the next batch of foreign workers.

Question 3:

May I know the sustainability of the Group and your major competitor?

Reply:

Mr Seah replied that the Group's sales comprises 30% for exports and 70%, domestic. The Group has a diverse range of export. YLI also has an OEM arrangement with Kubota Japan where they are supplying the ductile pipes outside Japan market. The contract between Kubota Japan and the Company has been extended until 2021. Currently, YLI supplies its pipes to Myanmar under Kubota Japan. YLI produces high quality pipes which led to Kubota Japan to market them under its brand. Due to their high quality of products, the Company can stand against other competitors in the industry. In addition to that, the Group's ductile pipes has been exported worldwide, for instance Asia Pacific and Middle East.

Question 4:

How does the Company store its raw materials as the raw materials can be oxidise?

Reply:

Mr Seah replied that the Group practises "just-in-time" and they do not keep high stock level. Their suppliers for raw materials scrap are mostly from Penang. The Group does not keep their stock too long to prevent it from being oxidise as the value will drop if it oxidises.