LB ALUMINIUM BERHAD
[Company No. 198501006093 (138535-V)]
(Incorporated in Malaysia)

SUMMARY OF THE KEY MATTERS DISCUSSED AT THE ANNUAL GENERAL MEETING OF THE COMPANY HELD AT UJONG PANDANG ROOM, STAFFIELD COUNTRY RESORT, BATU 13, JALAN SEREMBAN-KUALA LUMPUR (COUNTRY ROAD), 71700 MANTIN, NEGERI SEMBILAN DARUL KHUSUS, ON MONDAY, 30 SEPTEMBER 2019 AT 10.00 A.M.

1.0 The Chairman invited questions from the shareholders of the Company and proxies for each of the resolutions tabled at the Annual General Meeting ("AGM").

2.0 A proxy suggested the Board to make a brief presentation of the Group's overall performance for the financial year under review and the future outlook at the subsequent AGMs for the benefit of the shareholders and proxies.

3.0 The enquiries raised by the proxies were as follows:-

(a) The general outlook for the commodity prices, i.e. aluminium, for the financial year 2020.

(b) The measures and strategies undertaken by Management in order to achieve a net profit margin of more than 5%, moving forward.

(c) Whether there would be any corporate exercises to be undertaken between the Group and A-Rank Berhad ("A-Rank") Group such as mergers and acquisitions.

(d) Updates on the Group's new venture into the property development segment and the outlook for property development in respect of the next financial year.

(e) Whether the Group had received any discount in respect of the Recurrent Related Party Transaction ("RRPT")s entered into between the Group and A-Rank Group.

(f) The reason for the drop in the Group's revenue in respect of the fourth quarter of the financial year 2019.

(g) The impact of the trade war between the United States of America ("USA") and People's Republic of China on the Group's exporting segment.

(h) The reasons for the significant decrease in the Group's export revenue from 35% to 26% for Asean countries.

(i) The major impacts of the new Malaysia Financial Reporting Standards ("MFRS") 9 and MFRS 15 to the financial statements of the Group and the method adopted by the Group in arriving at the expected credit loss.

(j) The future hedging policy on foreign currencies adopted by the Group.

(k) The details of the short-term fund recorded in the Statement of Financial Position for the financial year ended 30 April 2019 and the interest rate for the said short-term fund.

(l) The acceptable gearing level to the Group.

(m) The reasons for the higher borrowings reported for the financial year ended 30 April 2019.

(n) The overall performance and outlook of a subsidiary, Façade Performance Lab Sdn Bhd ("FPL"), as well as the amount of capital required for this investment.

(o) Whether the Group would have new property projects in the near future other than OUG Platinum Residency.

(p) The capital expenditure of the Group for the next financial year.

4.0 Mr Mark Wing Kong ("Mr Mark"), the Chief Executive Officer of the Company, took note of proxy's suggestion. Mr Mark and Management of the Company addressed the above enquiries on behalf of the Company as follows:-

(a) The aluminium prices were unpredictable as they were susceptible to factors, such as supply and demand in the commodities market. Currently, aluminium was traded at between USD1700 and USD1800 per tonne. Most of the Group's aluminum suppliers foresee that aluminium prices would remain stable for the time being. The Group would adjust its selling prices at a competitive level based on the price movement of aluminium.

(b) The Group was able to achieve a higher profit margin of more than 5% in 2014 mainly because of the appreciation of the US currency. During the financial year 2019, the Group recorded a higher sales turnover but a lower profit margin due to weaker market conditions and the increase in cost of doing business in Malaysia. The Group would continue to work hard to achieve higher turnover and profits in order to improve its earnings per share.

(c) Save for the customer-supplier relationship and the interest of Datuk Leow Chong Howa, who is a common director and major shareholder in both companies, A-Rank and the Group had been operated and managed by different management teams and boards. At this juncture, no corporate exercise or restructuring between the two companies had been discussed.

(d) During the financial year ended 30 April 2019, the Group initiated the plan to diversify its business activities to include property development. The Group, through its investment in a 20%-owned associate company, Vistarena Development Sdn Bhd, was able to generate a net profit of RM2.5 million from the development of a residential project, namely OUG Platinum Residency. The said project had been performing well with more than 90% of the total units successfully sold since its launch. The project was currently 17% completed. For the Company's new investment in Citajaya Kuasa Sdn Bhd ("Citajaya") and Contras Build Sdn Bhd ("Contras Build"), land premium had been paid to the Land Office for a piece of land and the company was currently waiting for the issuance of the land title by the Land Office.

(e) The business transactions between A-Rank Group and the Group were regarded as RRPTs due to the common directorships and shareholdings of Datuk Leow in both A-Rank and the Company. The Company had been obtaining shareholders' mandate at AGMs for the RRPTs on an annual basis. All transactions had been made on arm's length. The Company has to adhere to certain pre-determined procedures in ensuring that the RRPTs are made at arm's length, on normal commercial terms and prices not more favourable to the public and not detriment to the minority shareholders of the Group.

(f) The Group recorded a lower revenue for the last quarter of the financial year 2019, mainly due to a shorter operating period in conjunction with the Chinese New Year holidays in February 2019.

(g) The Group was a niche player in the North America export market and managed to record higher revenue from North America (mainly Canada) due to higher selling prices.

(h) The decline in the Group's export revenue from Asean countries was mainly from Singapore, due largely to the slower economic growth and the competitive business environment in Singapore.

(i) The implications from adopting MFRS 9 and MFRS 15 to the Group's financial statements were disclosed under Note 5 of the Financial Statements. The following were highlighted:

<u>MFRS 9</u>
The impairment methodology for financial assets (which includes trade receivables) had changed from 'incurred losses model" to "expected credit losses model". The impairment methodology under MFRS 9 was more prudent compared to the previous model.

A general provision for doubtful debts (expected credit loss) amounting to approximately RM62,000 was made for the financial year 2019 as a result of the adoption of MFRS 9.

The Group had assigned certain percentage to its accounts receivables ageing based on a combination of historical and forward-looking methods in determining the expected credit loss.

<u>MFRS 15</u>
Prior to the adoption of MFRS 15, payment received from customers in respect of the fabrication of customised dies and moulds was recorded as deferred income and recognised as revenue over a period of five (5) years. The costs to develop the customised dies and moulds were capitalised as part of the property, plant and equipment and amortised over a period of five (5) years.

Under MFRS 15, the revenue for the fabrication of customised dies and moulds would be recognised at a point in time when control of the customised dies and moulds has been transferred to the customers. The costs to develop dies and moulds upon completion of the dies and moulds and would be recognised as costs to fulfil the performance obligation in profit or loss.

(j) No currency forward hedge would be required at the juncture as the Group's export sales that are denominated in USD currency would provide a natural hedge against any impact of volatility in foreign currency exchange rates on the imported aluminium prices and vice versa.

(k) The Group had placed about RM14.3 million with UOB Investment Fund, which offered a higher interest rate than the interest offered by licensed banks for fixed deposit placement. Mr William suggested the Group place its excess funds into investments that offer high returns. Management took note of the suggestion and would look into the same.

(l) The Group's gearing ratio was at a comfortable level at 0.35.

(m) For the financial year 2019, the increase in the Group's borrowings was mainly due to additional loan drawdowns as follows:-

(i) RM6 million to fund the Group's investment in associate;

(ii) RM10 million to fund the Group's property development expenditure; and

(iii) RM25 million to fund the acquisition of investment property.

(n) FPL commenced its business operation in January 2019 to carry out structural, water and air infiltration performance tests for windows, doors and facades, products compliance testing and inspection, window design consultancies, other window, door façade related performance testing for the customers of the Company. The Group had invested approximately RM2 million for FPL's facilities. FPL has the most comprehensive and advanced performances test facilities in Malaysia. FPL had yet to make profits due to its initial start-up costs but Management opined that FPL would report better financial results over time.

(o) During the financial year ended 30 April 2019, the Group invested in Citajaya and Contras Build and the latter was currently waiting for the issuance of land title for a piece of land from the Land Office. Subsequent to the financial year 2019, the Group acquired two (2) new subsidiaries, namely Greentech Paramount Sdn Bhd and Pembinaan Serta Hebat Sdn Bhd ("PSH"), on 16 May 2019. PSH had subsequently received the land title for a piece of land from the Land Office for the purpose of residential development for armed forces' personnel.

(p) The Group's total estimated capital expenditure for the financial year ending 30 April 2020 was RM24.5 million.

5.0 A shareholder of the Company raised his concern on the high expenses incurred by the Group for the financial year 2019 and advised Management to manage the same. He then further enquired on the following:-

(a) Challenges faced by the Company, if any, arising from the trade war and withdrawal of the United Kingdom from the European Union ("Brexit") and measures to overcome them.

(b) Measures to improve the liquidity and market activity of the Company's shares, such as rewarding the shareholders with bonus shares.

(c) The details of the energy consumption in the Group's factories for the past three (3) years.

6.0 Mr Mark addressed the above comments and enquiries as follows:-

(a) Brexit did not impact the Group since the Group did not export to Europe, while the impact of the trade war would be minimal as the Group was a relatively small player in the aluminium export market.

Approximately 66% of the Group's revenue was derived from the domestic market and the Board remained positive despite the current market conditions in Malaysia.

(b) The Board took note of the shareholder's suggestion on bonus issue exercise to improve the liquidity of the Company's shares. However, the Company would study the same and ensure it meets all the requirements under the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad before deciding on the said exercise.

(c) Management was currently looking at measures to reduce the Group's expenses. However, some expenses were unavoidable, such as the rising raw material cost that had contributed to more than 80% of the Group's cost of sales and the increase in gas price. Nevertheless, the Group would continue with its cost-saving exercises to cut down on expenses that are within the Group's control.

(d) The Group's electricity usage in its factories was higher than gas usage. The Group had embarked on a solar energy project and invested in a solar power system where solar panels were installed on the roof top of buildings to generate electricity for the Group's own use. Any excess electricity generated from the solar power system would be sold to the government. In addition, the Group was given tax incentives for its solar energy project.

7.0 A shareholder of the Company enquired on the Group's plant production capacity and whether the Group has any intention to introduce new products.

In response, Mr Mark informed that the Group's plants had been operating at approximately 50% to 60% of its capacity. The core business of the Group would remain as manufacturing, marketing and trading of aluminium extrusion. Instead of introducing new products, the Group would diversify its customer base to include new customers from the non-building and construction industry.

8.0 The Chairman informed that the Company received a letter from the Minority Shareholders Watch Group ("MSWG") on 17 September 2019, seeking responses from the Company in relation to the Company's strategy/financial matters and Corporate Governance Matter.

9.0 Mr Mark read out the questions from MSWG and the corresponding replies from the Company as follows:-

Strategy/Financial Matters

(i) The Group is continuously looking into its processes to improve efficiency and reduce operational costs in order to enhance its profit margins (Page 62 of the Annual Report 2019).

(a) What is the targeted efficiency level as compared to the present level?

Answer:
We are currently operating at efficiency level above 75%. We are working towards increasing it by 1%-2%.

(b) What is the targeted percentage of reduction in operational costs?

Answer:
In the current environment where the costs of doing business in Malaysia is increasing which include but not limited to wages and energy costs, the Group strives to ensure that firstly, overall operational costs do not increase vis-à-vis the previous year and secondly to identify cost savings opportunities within the operational costs.

(ii) What is the current utilisation rate of the Group's production capacity?

Answer:
The Group's current utilisation rate is at 50%-60% of its capacity.

(iii) As reported on Page 62 of the Annual Report 2019, the Group will exercise caution in evaluating any future opportunity to invest in the property development industry.

What are the Group's current specific requirements when deciding to invest in the property development industry?

Answer:
As we are new to the property development, our initial strategy is to partner with a reputable and reliable development company whenever we invest in a new project.

Our investment decisions would take into account the location of the site, the type of development, the market condition as well as the land costs.

For Financial Year 2019, we have recorded a share of Profit After Tax of RM2.5 million from our investment in an associate, Vistarena Development Sdn Bhd.

Corporate Governance Matters

(i) Paragraph 9.21(2)9b) of the MMLR requires a public listed company to publish a summary of the Key Matters Discussed at the AGM.

As at 12 September 2019, the Key Matters Discussed at the last AGM were not published on the Company's website.
Please explain.

Answer:
We did not provide a Summary of the Key Matters Discussed for last AGM on the Company's website because there were no questions raised by the shareholders from the floor during the last AGM.

(ii) Practice 8.5

The Company in its Corporate Governance Report has stated that it has applied Practice 8.5 of Malaysian Code on Corporate Governance (MCCG) (Page 31 of the Company's Corporate Governance Report) which requires all members of the Audit Committee to undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

MSWG's Comment:

The Company has not applied the Practice.

Not all members of the Audit Committee have attended formal training programmes or seminars for continuing professional development (Page 28 of the Annual Report 2019) relating to the development in accounting and auditing standard, practices and rules.

Please take note.

Answer:
We take note on the comment from MSWG and will ensure that all of our Audit Committee members will take up the relevant training programmes and/or seminars on development of accounting and auditing standard, practices and rules in the future.

10.0 A proxy enquired on the length of the services rendered by Messrs BDO PLT to the Group.

In response, the Chairman informed that BDO had served the Group as external auditors for almost three (3) years.

11.0 A proxy also sought clarification from the Board on the following in relation to the Circular to shareholders dated 30 August 2019 on the proposed renewal of the existing shareholders' mandate for the company and/or its subsidiaries to enter into recurrent related party transactions ("RRPTs") of a revenue or trading nature ("Proposed RRPT Mandate"):-

(i) The variance between the estimated value for the RRPTs and the amount of actual value transacted; and

(ii) Methods adopted in deriving at the estimated value for RRPTs.

12.0 In reply, Mr Mark explained that the amount of actual value transacted as stated in the Circular was in respect of a 10-month period from 28 September 2018 to 31 July 2019 whilst the estimated value was in respect of a 12-month period from 2018 AGM to 2019 AGM. Other than that, a higher estimated value for RRPTs was provided in view of the volatility of future aluminium prices.

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