

LEE SWEE KIAT GROUP BERHAD
[Registration No. 200301005163 (607583-T)]
(Incorporated in Malaysia)

QUESTIONS RAISED AND ANSWERED AT THE EIGHTEENTH ANNUAL GENERAL MEETING HELD ON MONDAY, 24 MAY 2021 AT 10.00 A.M.

- Q1(i). Impact of Movement Control Order (“MCO”) 3.0 on the operations?**
(ii). What keeps the CEO stay awake at night?
- A1(i) As announced by the Government of Malaysia, during MCO 3.0, all companies can only operate at 60% capacity. At present, the Company’s factory is still running at full steam. With MCO 3.0, the Company’s operation will be affected as the Group is required to abide by the standard operating procedures for MCO 3.0.
- (ii) The Managing Director shared that if there are problems that could not be solved during daytime, by staying awake at night will not help either.
- Q2(i) Are the Company’s sales badly affected in recent days?**
(ii) Do Management see day light or recovery around the corner?
(iii) Has the latex price gone up? Any margin compression?
- A2 (i) The Company’s sales were quite good until recently. However, with MCO 3.0, sales would be affected. The Company would have to accept the fact and cope with the situation.
- (ii) For recovery, Management hoped that the vaccination process could be speed up in Malaysia, so that the people could go back to the normal life as soon as possible.
- (iii) Latex price has gone up since the fourth quarter of 2020. The Company has revised its pricing with pass on costs to consumers from first quarter of 2021 onwards.
- Q3(i) What is the Company’s strategy to reverse negative trend?**
(ii) What is the Company’s strategy for next 12 months?
- A3 The Company does not have any negative trend. The Company was affected by the uncontrollable pandemic that government imposed the MCO which was beyond the Company’s control. The Company could only hope that the government’s vaccination program could be speed up so that the Company could go into full steam of operation.
- Q4(i) Is the Company producing any medical used mattresses?**
(ii) Is the Company benefited from setup of more COVID-19 quarantine centres?
(iii) How sensitive are the fluctuation of material costs of latex and metal to the Company’s bottom line?
(iv) Is the Company’s workers subject to compliance with Act 446 in relation to Workers’ Minimum Standards of Housing and Amenities Act 1990?
(v) Did the Company e-channel sales/ promotion activities yield significant result? (e.g. Promotion in WowShop)

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- A4(i)&(ii) The Company does not produce the low-end foam mattresses which were used by the quarantine centres and hospitals. Thus, the setup of more COVID-19 quarantine centres will not benefit the Company.
- (iii) The fluctuation of cost for latex and metal would affect the Company's cost as latex and metal are the Company's major production cost. However, so far, the Company can pass on the costs to consumers.
- (iv) All factories in Malaysia are required to comply with Act 446 in relation to Workers' Minimum Standards of Housing and Amenities Act 1990. The Company has acquired eight (8) units of dormitories and submitted the applications to local authorities for approval. As at to-date, some of the dormitories have obtained the approval from the authorities and the Company is in the midst of setting up the dormitories to ensure full compliance with this Act 446.
- (v) The Company has done some promotions at CJ WowShop and the response has been encouraging. However, overall, the Company's sales are still mainly contributing from export market and traditional retail business. Although the e-channel promotion sales is growing but its contribution towards the overall Group's revenue is still not significant.
- Q5(i) Currently, how many mattresses are sold per month through the partnership with Cuckoo and this makes up how many percent of the group's total sales?**
- (ii) Does the agreement with Cuckoo has a price escalation clause that allows the Company to pass on any significant increase in cost of major materials?**
- (iii) Is our Group facing any labour shortage issue?**
- (iv) Please share your view on the outlook for our Group for the next one (1) year?**
- (v) Are we one of the top ten mattress manufacturers in the world?**
- A5(i) The collaboration with Cuckoo International (MAL) Sdn Bhd ("Cuckoo") was signed in December 2020. The rental business with Cuckoo was supposed to be launched in early quarter 1 of 2021 but it was slightly delayed to the end of quarter 1 2021 due to the implementation of MCO 2.0. Sales had been encouraging since launching and sales in May 2021 had surpassed the Company's target. With the implementation of MCO 3.0, the impact on sales was still uncertain but Management anticipated that sales will be affected. At this point of time, it was too early to determine the rate of contribution of the rental business with Cuckoo towards the Group's overall revenue as the business has just started. Nevertheless, the sales are in line with its target.
- (ii) There was no price escalation in the agreement entered with Cuckoo as the price was for these 3 years. The cost of products was structured in the manner where none of the material component (combination of spring, pocket spring, foam, latex, and fabric) shall make up to more than 25% of total cost of the products.
- (iii) All factories in Malaysia are always facing labour shortage issues since the Government of Malaysia had frozen the foreign labour recruitment. So far, the Company was able to handle this issue and has not affected the Company's operations.

- (iv) The Company is optimistic on the Group's outlook for coming 1 year.
- (v) The Company is not one of the top ten mattress manufacturers in the world as the mattress market from Malaysia is very small.

Q6 What is the latest progress of acquisition of LSK Italhouse Sdn Bhd? When will it start to contribute to the Company's earning?

A6 The asset purchase agreement for the acquisition of LSK Italhouse Sdn Bhd was signed in July 2019. However, there were some problems on the completion of the acquisition due to the vendor could not meet some of the conditions precedents of the agreement particularly, the transfer of ownership of tenancy agreements of the showrooms to the Group as there were some technical issues.

This was further adversely impacted by the implementation of MCO 1.0 throughout Malaysia whereby Italhouse is based in Johor and Johor is amongst the worst hit state in Malaysia because more than 50% of Johor retail businesses relied on Singaporean and those Malaysian working in Singapore. The business of Italhouse was affected badly and the Company had to make an impairment of RM1.0 million for this investment for financial year 2020.

At present, Italhouse had not been consolidated into the Group's accounts due to the condition precedents in the asset purchase agreement had not been fulfilled. The Company planned to resolve the matter with the vendor by this year. The Company would keep the shareholders posted on the matter in due course.

Q7(i) Please describe the logistic challenge especially for bulky items like our mattresses and what are the strategies that Management has adopted to mitigate its impact?

(ii) How is our Cuckoo joint venture ("JV") updates?

A7(i) In view that the mattresses are bulking item, the Company has its owned fleets of lorries for delivery of mattresses. The Company obtained special approval to have long wheelbase lorries, so that they could fit more mattresses per trip for delivery to consumers. Besides, the Company also works with third party transporter to mitigate the impact on the fluctuation in demand.

- (ii) The JV with Cuckoo is going smooth and moving on very well. Please refer to A5 for further detail.

Q8 How many live participants do we have for this morning?

A8 There were 37 live participants joined the meeting as at 10.30 am.

Q9 In the event the current MCO 3.0 is extended for another 3 months, how does the Company plan to generate sales especially for its consumer business with Cuckoo?

A9 The current MCO 3.0 is unlike MCO 1.0 whereby the Group was not allowed to operate at all. Under MCO 3.0, the Group could still operate but at a reduced scale, i.e. at 60% workforce. The Group's export business was still good.

The Company had not has any plan as the impact of MCO 3.0 on mattress rental business was still uncertain. Based on the feedback from Cuckoo, there was not much effect on its water filter sales after the implementation of MCO 3.0. The Company would monitor the progress in due course.

Q10(i) Why was the staff cost had escalated from RM8.4 million in financial year 2016 to RM16.3 million in financial year 2020 even with CAPEX in automation?

(ii) Kindly explain why the Group terminate the acquisition of Italhouse Furniture and its impact? Is this predicament can be resolved in 2021?

(iii) Is sales derived from Cuckoo collaboration encouraging and what is the sales target?

(iv) How many percent of local workers have been recruited since March 2020?

(v) Has the Group pass the rising of raw material cost to consumer?

A10(i) The increase of staff cost from 2016 to 2020 was due to the substantial increase in worker's minimum wages from RM600 to RM650 per month in 2016 to RM1,200 per month in 2021. Besides that, the Company's operation had also increased significantly from generating sales of RM60.0 million to RM70.0 million in 2016 to approximately RM100.0 million in the current year. As such, the Group has to hire more staff for all departments to cater to the business expansion requirement.

(ii) The Group has yet to terminate the agreement on the acquisition of Italhouse Furniture. Management is currently working with the Vendor to resolve or unwind the matter.

(iii) The sales from Cuckoo collaboration is very encouraging and the Company targeted to achieve sales of 10,000 to 14,000 pieces of mattress in 2021. The sales target was set before the MCO 3.0. The Company had yet to see the impact of the MCO 3.0 on the sales.

(iv) The Company has recruited around 10 local workers since March 2020, mainly for supervisory position and technical staff. Not much on factory side.

(v) The Group has revised its pricing on first quarter of 2021 and pass on costs to consumers.

Q11 In your opinion, how big is the total addressable market (TAM) for the mattress rental business in Malaysia?

A11 The Company does not have the actual figures for TAM for the mattress rental business in Malaysia, but it was estimated at RM300.0 million per annum.

Q12 Since new MCO rules only allow 60% capacity of workforces, would the Company outsource certain low value production to third party subcontractors?

A12 The Group would consider and explore outsourcing some production to third party, but it is also depending on the subcontractor's capacity as they would also have to comply with 60% workforces' rule

Q13 Does the Company face logistic problems when come to export business?

A13 The main logistic issue for export business is the significant increase of ocean freight cost. Although the Company's shipment term for export sales is Free On Board ("FOB") whereby the freight cost is to be borne by buyer, it was still challenging as there were occasion where buyers delay in taking up the goods due to the freight cost was too high. The freight cost may increase 3 to 5 times.

Q14 What about the export related shipping logistic challenge?

A14 Please refer A13 for detail explanation.

Q15(i) What is your current production capacity and utilisation rate?
(ii) Any plans to expand the capacity this year?

A15(i) The Group's production capacity for latex division is 6,500 to 7,000 tonnes per annum and the Group is moving toward achieving the said capacity. However, in view of the MCO 3.0, there might be a delay in meeting the target.

(ii) For expansion of capacity, the Company had acquired and installed some automation machines since last year. However, the commissioning of the machines had not been completed due to the foreign technicians could not enter Malaysia to performing the full commissioning work. Thus, some of the machines were still sitting in factory and could not operate to improve the production efficiency, which may potentially increase the production to 7,500 to 8,000 tonnes per annum. The Company would have to wait till the pandemic subside and when the Malaysia's border is open to allow the foreign technician to come in to perform the full commissioning work.

Q16(i) How many mattresses was sold so far under the new rental model?
(ii) Is the Company facing any shipping constraint?

A16(i) Please refer A5 for detail explanation.

(ii) Please refer to A13 for detail explanation

Q17(i) What has been the biggest change in your industry over the last five (5) years?
(ii) If I have sufficient capital, what would stop me from competing with LSK in year one?
(iii) Is there a possibility LSK is going to be 5 or 10 times bigger as it is today in 5 to 10 years down the road?

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A17(i) The COVID-19 pandemic lock down.

(ii) The brand value and goodwill would be a significant operating moat to deter new entrants.

(iii) Yes, it is possible.

Q18 Why don't you offer super single mattress under Cuckoo JV? Possible to offer in the future?

A18 It will be launched later.