

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

QUESTIONS RAISED AND ANSWERED AT THE NINETEENTH ANNUAL GENERAL MEETING HELD ON MONDAY, 23 MAY 2022 AT 10.00 A.M.

- Q1**
- (i)** The Group's margin has been slightly squeezed to around 7% from above 8% previously. What is the action taken to mitigate the further drop in margin, moving forward? Please share with us the cost breakdown of the Group's business?
 - (ii)** Since 2018, the Group's revenue has remained at around RM100.0 million for the past four years. Given the full reopening of economy this year, please share the Group's business plan in increasing the business and improving the revenue.
 - (iii)** Given that approximately 45% of the Group's business is export oriented, what is the incremental top line and bottom line for every 1% increase in USD/MYR?
 - (iv)** I understand that the industry is very fragmented and competitive. What is the Group's competitive strength compared with other local peers and brands?
 - (v)** What is the average lifespan for each mattress? What are the key drivers for the demand?
- A1**
- (i) The Group recorded a lower net margin of 7% in the financial year 2021 due to the one-off impairment of RM2.70 million in relation to the investment in Italhouse Furniture Retail Group ("Italhouse Furniture"). Without the said impairment, the Group would have performed satisfactorily at a 10% net operating margin for the financial year 2021.*
- The Group is principally involved in bedding industry, hence there is no segmental breakdown in the overall cost structure. The main operating costs of the Group comprise raw materials costs and labour costs.*
- (ii) The sales and revenue growth of the Group in 2020 and 2021 had been adversely affected by the imposition of different phases of the Movement Control Order ("MCO") in Malaysia, whereby the Group's operation was halted and disrupted with limited workforce capacity to curb the spread of Covid-19.*
- The sales and turnover of the Group were expected to improve in 2022 following the transition to the endemic phase.*
- (iii) The Group practised natural hedging by purchasing the key raw materials, i.e. latex, in USD. Generally, the export proceeds were higher than the cost of purchase of key raw materials. The overall impact on the Group's bottom line ranged from 0.1% to 0.2% for every 1% increase in USD/MYR.*
 - (iv) The following factors had contributed to the competitive edge of the Group:-*
 - (a) The Group has been certified as the largest natural latex bedding manufacturer focusing on 100% natural latex mattresses in Malaysia and has built a strong brand portfolio;*

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- (b) *The Group possesses diversified distribution network with a balance of local and export sales;*
- (c) *Approximately 70% of the local sales derived from direct Business-to-Consumer sales channels within Malaysia, in which the Group remains competitive and enjoys higher profit margin as well as providing better after-sales services to customers.*
- (v) *Generally, the average lifespan of the Group's mattresses is up to 10 years, depending on the usage as well as mattress maintenance and care. This is evidenced by the quality test conducted by Landesgewerbeanstalt Bayern (LGA), Germany.*
- Q2 (i) What is the impact of increase in minimum wage on the Company?**
(ii) What is the impact of inflation on the Company's cost structure?
(iii) What is the main raw material composition for the Company's products?
(iv) Will the Company be able to transfer the costs to the customers?
- A2 (i) *Based on the Group's current foreign workforce, with the increase of minimum monthly wage from RM1,200 to RM1,500 effective 1 May 2022, the Group is expected to incur additional labour cost of approximately RM1.0 million per annum, which is around 1% of the Group's revenue.*
- (ii), (iii) & (iv) *Inflation has become a global issue amid the shortage of commodities and the rising logistic costs. The Group is targeting the medium- to high-end premium market and enjoys favourable margin on the products. Hence, the Group will be in a better position to absorb the rising costs to weather the challenging times.*
- Q3 (i) What was the trend of raw materials for the preceding six months? Has the Group been affected by the higher commodity prices?**
(ii) How was the sales performance of Cuckoo Napure in May 2022 as compared with January 2022 to April 2022? What was the average sales per month and did the sales performance meet the Company's target?
- A3 (i) *Commodity prices were on the rise in the preceding six months and had impacted the overall cost structure of the Group. Nonetheless, the Group will be able to absorb the rising costs or alternatively, revise the pricing in order to pass on the costs to the customers.*
- (ii) *The sales generated from the Cuckoo Napure mattress collaboration under Rental Based Business Model ("Cuckoo Napure Collaboration") were positive from March 2021 until the imposition of the Enhanced MCO by the Government. The sales momentum gradually rebounded at the beginning of 2022, particularly in April 2022 and May 2022, whereby the sales were very encouraging. Management is expected to achieve the monthly sales target for Cuckoo Napure Collaboration soon.*
- Q4 (i) Has the Group's production normalised after the flood in December 2021?**
(ii) What is the current capacity utilisation rate of the plant?
(iii) Is the Group facing any shortage and hike in prices of raw materials?
(iv) Is the freight cost on the downtrend yet?

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- (v) **What is the duration for the Group to collect full payment from the sales of Cuckoo Napure Collaboration and how will the Group address the bad debt issue?**
- (vi) **How is the sales performance of Italhouse post the reopening of the Singapore-Malaysia border?**
- (vii) **What is the status of the termination agreement for Italhouse business?**
- (viii) **Will the minimum wage of RM1,500 affect the Group's profitability significantly?**
- (xi) **Has the issue of foreign worker shortage been resolved?**
- (x) **Has the appointed foreign technician commenced the automation operation, of which the Company invested about RM3.0 million in 2019 and 2020?**

- A4
- (i) *The Group has resumed normal operations.*
 - (ii) *The Group's production line for mattresses has been operating at full capacity with the current workforce. The utilisation rate is expected to improve once the new foreign workers join the Group.*
 - (iii) *The Group is experiencing price hikes in raw materials.*
 - (iv) *The freight cost remains high thus far.*
 - (v) *At present, the collection for Cuckoo Napure Collaboration is spread over 36 months. Under the collaboration arrangement, the revenue and bad debts, if any, are shared between Cuckoo International (MAL) Sdn Bhd and the Company on a 60:40 ratio.*
 - (vi) *Following the reopening of the Singapore-Malaysia border, LSK Italhouse Sdn Bhd ("LSK Italhouse") participated in a few roadshows in Johor and secured encouraging sales orders. Management hopes that the business of LSK Italhouse can turn around during the year.*
 - (vii) *The Group has yet to terminate the Asset Purchase Agreement on the acquisition of Italhouse Furniture as the Vendor is uncontactable. Management has taken over the operations of Italhouse Furniture and will work with the Vendor to resolve the matter.*
 - (viii) *Please refer to A2(i) for further details.*
 - (ix) *The Government has lifted the freeze on foreign worker recruitment. Nonetheless, the application and approval processes in hiring new foreign workers have been slow.*
 - (x) *The commissioning of the automation machine has not completed to date.*

Q5 What is the Company's strategy to improve the Cuckoo Napure Collaboration? The collaboration does not seem to be able to achieve the expected revenue.

A5 *The revenue contribution from Cuckoo Napure Collaboration did not meet the target set for 2021, mainly attributable to the multiple MCOs implemented by the Government. The*

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Group anticipates the revenue contribution from the Cuckoo Napure Collaboration for the year to be satisfactory.

- Q6 (i) What is the status of acquisition of LSK Italhouse? Has the Company resolved the issue with the Vendor as planned last year?**
- (ii) How many foreign workers does the Group have? Does the Group have any plan to increase the number of foreign workers this year? What is the impact arising from the increase in minimum wage to RM1,500?**
- (iii) What is the current production capacity and utilisation rate of the Group? Has the Company commissioned the idle automation machine acquired a few years back?**

A6 (i) Please refer to A4(vii) for further details.

(ii) The Company has more than 200 foreign workers at present and intends to recruit additional foreign workers to fulfil the increased sales orders. On the impact of increase in minimum monthly wage, please refer to A2(i) for further details.

(iii) Please refer to A4(ii) and (x) for further details.

- Q7 (i) Which is the best seller among Cuckoo Napure Super Single, Queen and King mattresses?**
- (ii) Apart from Cuckoo Napure Collaboration, is the Company looking for other joint venture or partnership?**

A7 (i) Queen size mattress is the best seller for the Cuckoo Napure series.

(ii) The Group is always exploring opportunities for joint venture and/or partnership.

- Q8 What is the estimated percentage of bad debt to sales in relation to the new instalment payment plan introduced under the Cuckoo Napure Collaboration?**

A8 The Group has recorded bad debts of 5% from the registered sales of Cuckoo Napure Collaboration, which is still within the Group's budget.

- Q9 How much is the estimated impact on the profit margin due to the recent recalibration of minimum wages as well as the hike in latex materials? Has the Company prepared any strategies to mitigate or minimise the impact of these, for the years to come?**

A9 Please refer to A2 for further details.

- Q10 (i) Are export sales back to the pre-Covid level? What is the Company's future strategy with regard to export sales? Any plan to enter new markets?**
- (ii) How about the sales performance for domestic market? Is it back to the pre-Covid level?**

A10 (i) The Group's export sales have dropped to below the pre-pandemic level, mainly due to the unexpected surge in ocean freight cost by as high as 700% and

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shortage of shipping containers. The Group is always looking for ways to open new export markets.

(ii) Following the relaxation of the Covid-19 standard operating procedure, the Group recorded a strong rebound for domestic market sales, which are better than the pre-pandemic level.

**Q11 (i) Will the acquisition of Italhouse Furniture be completed this year?
(ii) Following the reopening of the Singapore-Malaysia border restrictions, will Italhouse Furniture record a turnover this year?**

A11 (i) The Company plans to resolve the acquisition of Italhouse Furniture with the Vendor by this year.

(ii) Management has seen a revived demand in Johor's domestic retail market, which was badly hit by the Covid-19 pandemic. Hence, Italhouse Furniture is expected to perform better in 2022.

**Q12 (i) What is the impact of the weakening Ringgit Malaysia? Will it benefit the Company?
(ii) What is the current situation of Italhouse Furniture? Does the Group have any plan to boost the sales of Italhouse Furniture since Malaysia has reopened its border?
(iii) Has the Group provided for any recognition of impairment loss if the economy does not recover?
(iv) What is the Group's plan to cope with the minimum wage issue?**

A12 (i) Please refer to A1(iii) for further details.

(ii) The Group is engaging more promotional activities post reopening of Singapore-Malaysia border and expects gradual recovery of sales performance for Italhouse.

(iii) The Group has recognised the impairment of RM1.0 million in 2020 and a further RM2.70 million in 2021 for the investment in Italhouse Furniture

(iv) The Group may pass on the cost to customers, if needed.

Q13 How much of the Group's sales comprise export sales to the States? Is Berkshire Hathaway a customer of the Group and if not, is there any plan to win it?

A13 North America sales were about 20%. Berkshire Hathaway is not a customer of the Group, however, we would be glad to supply if they were to approach us.

Q14 What are the average sales of mattress of Cuckoo Napure Collaboration for April 2022 and May 2022?

A14 About 1,000 to 1,500 pieces per month.