

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

QUESTIONS RAISED AND ANSWERED AT THE TWENTIETH ANNUAL GENERAL MEETING HELD ON 29 MAY 2023

- Q1 (i) The Group recorded lower export sales for the financial year ended (“FYE”) 31 December 2022 against the preceding year. What is the Group’s future strategy to boost the export sales?**
- (ii) What is the Group’s strategy to strengthen the mattress sales through LSK Italhouse Sdn Bhd (“LSK Italhouse”), the direct distribution channel?**
- (iii) Generally, the local furniture industry is experiencing a downturn. Will the Group consider merger and acquisition as part of the growth strategy?**
- (iv) What is the bad debt level for sales in relation to the Rental Based Business Model under the Cuckoo Napure mattress collaboration (“Cuckoo Napure Collaboration”)? How is the customers’ repayment capacity on Cuckoo Napure Collaboration instalment payment plan following the increase in the Overnight Policy Rate (“OPR”) by Bank Negara Malaysia?**

- A1 (i)** *The Group’s export sales had been underperforming since end-2021 due to the high global inflation and rising energy costs, which had inevitably dampened the purchasing power of the consumers, particularly from European countries. Notwithstanding a drop of approximately RM20 million in export sales, the Group recorded the best ever performance in the FYE 2022 on the back of strong domestic direct business-to-consumer (“B2C”) sales and contribution from the Cuckoo Napure Collaboration.*

Export demand remained soft although the ocean freight costs have gone down to pre-pandemic level. The Group will focus on building trust and rapport with foreign customers and business partners through business visits to keep abreast of market trends and explore opportunities for new collaborations.

- (ii)** *LSK Italhouse retail outlets are the Group’s direct B2C distribution channel, mainly based in Johor, where more than 50% of the market depends on Singaporean buyers and Malaysians working in Singapore. The sales of LSK Italhouse retail outlets were adversely affected by the cross-border restriction between Singapore and Malaysia during the Covid-19 pandemic.*

In July 2022, the Group assumed full control of LSK Italhouse upon acquiring the remaining stake from the other shareholder.

Following the economy recovery post-pandemic, LSK Italhouse recorded a breakeven performance for the FYE 2022. Management will continue monitoring and improving the sales performance of LSK Italhouse.

- (iii)** *Generally, the export sales for local furniture manufacturers have dropped by 40% to 50%.*

The Group is always exploring opportunities for business expansion through merger or acquisition should it create synergistic effect to maximise the shareholders’ value.

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- (iv) *On an average, the Group has recorded bad debts of less than 5% from the registered sales of Cuckoo Napure Collaboration, which are within the Group's budget.*

The monthly instalments for Cuckoo Napure mattress subscription are insignificant. The repayment capacity of customers depends on their ability and willingness to pay the scheduled instalments upon diversion of funds for daily needs. Nonetheless, Cuckoo International (MAL) Sdn Bhd ("Cuckoo Malaysia") has put in place an agreement with the customers on their monthly commitment for the subscription of Cuckoo Napure mattress. Should there be default payments by a customer for more than three months, Cuckoo Malaysia will submit a credit report in the name of the customer to CTOS.

With the increasing OPR, the sales momentum for Cuckoo Napure Collaboration has slowed down and yet, it is on a healthy level. The Rental Based Business Model requires substantial upfront working capital to finance the rent, which resulted in lower net cash position in FYE 2021. However, the Group recorded cash inflows after 15 months of capital investment in Cuckoo Napure Collaboration and anticipates a stronger revenue contribution from Cuckoo Napure Collaboration for FYE 2023.

- Q2 (i) What is the total addressable market for global mattress? Why did the Group not expand its market share in the foreign market?**
- (ii) The Group recorded approximately RM90 million sales in the domestic market for FYE 2022. What about Singapore? Will the Company consider exploring the Rental Based Business Model in Singapore?**
- (iii) The Group achieved an encouraging growth in direct B2C sales for the FYE 2022. Was it attributable to the sales rebound post-pandemic?**
- (iv) What is the key factor that contributed to the surge of direct B2C sales?**

- A2 (i)** *There are no official statistics on the global mattress market size. Based on studies, the domestic mattress market is valued at approximately MYR1 billion per annum while the biggest mattress bedding company in the United States ("US") records global sales of approximately USD4 billion per annum.*

The highly volatile ocean freight rates and the imposition of protectionist tariff, such as anti-dumping duty by foreign governments, are the challenges that have hampered the Group from growing its export sales. Further, the profit margin for export sales have been less favourable than the domestic sales.

The Group has positioned itself as a niche player in the mattress industry, focusing on 100% natural latex and premium branded bedding. Through its core value proposition, the Group enjoys an advantage over its competitors who produce spring and foam mattresses, and has the leading edge in exploring foreign market opportunities.

- (ii)** *The Singapore mattress market is pro-American and dominated by prominent brands, such as Simmons, Sealy and King Koil. As compared with foam and spring mattresses, natural latex mattresses are less common in Singapore for the time being.*

It will be challenging for the Group to promote the Rental Based Business Model in Singapore as most Singaporeans prefer cash purchase instead of instalment purchase at higher price.

- (iii) *The increase in direct B2C sales for FYE 2022 was attributable to the following:-*
- (a) *Domestic economy recovery following the relaxation of lockdown restrictions post-pandemic in end-2021; and*
 - (b) *Effective product branding and value creation proposition in the affordable luxury segment.*

Based on informal market research, the Group has outperformed most of its competitors in the mattress industry for the past two years and continues to increase its market share.

- (iv) *The Group has gradually transformed its domestic sales channel from exclusive dealerships to direct B2C model over the past few years. This move has enabled the Group to reach the target market more efficiently and has full control on delivering quality customer experience, which in turn has increased repeat purchases from existing customers and generated higher direct B2C sales.*

- Q3 (i) What are the components and ratio of the Group's cost of sales?**
(ii) Is the weakening Malaysian Ringgit against the US currency favourable to the Group?
(iii) Will Management consider engaging television shopping channels in China to promote the Group's products?

- A3 (i)** *Raw material costs are the largest component of the Group's cost of sales, followed by labour costs and overhead costs, such as energy costs and machine depreciation.*

It is difficult to ascertain the cost of sales ratio as different sales channels have various cost structure, subject to the volatility in raw material and logistics prices. Generally, the Group enjoys a higher margin from direct B2C sales while export sales contribute a lower margin. Nonetheless, the Group is expected to maintain a net profit margin of 10% or more based on the current market outlook.

- (ii) *The Group practises natural hedging of exports and imports by matching export proceeds with import payments as well as entering into forward forex contract. The majority of the export transactions and importation of core raw materials are traded in the US currency. The strengthening US currency is favourable to the Group as the Group's export value is greater than its import value. Overall, the short-term foreign exchange fluctuation has minimal impact on the Group, i.e. 10% change in foreign exchange rate might only lead to 1% change in the Group's revenue.*
- (iii) *The Group has engaged television shopping platforms to promote its products in Korea and Malaysia, but not in China.*

CJ Wow Shop, the television shopping platform in Malaysia, brought in good sales for the Group in 2021 and 2022. Nonetheless, it is currently undergoing internal restructuring and hence, its sales contribution to the Group in 2023 is uncertain.

Management has explored potential business collaborations in China and is of view that the challenging business ethics environment in China is not favourable to the Group.

- Q4 (i) What is the cause for the deviation between the unaudited profit after tax (“PAT”) attributable to equity holders of RM13 million stated in the announced financial results for the fourth quarter of 2022 and the audited PAT attributable to equity holders of RM10 million listed in the annual audited accounts for the FYE 2022?**
- (ii) Did Bursa Malaysia Securities Berhad (“Bursa Securities”) initiate any enforcement/disciplinary proceedings for the above deviation?**
- (iii) What is the percentage for the Expected Credit Loss (“ECL”) on Cuckoo Napure Collaboration outstanding collection?**
- (iv) What is the sales volume of mattress under Cuckoo Napure Collaboration per annum?**
- A4 (i) The adverse variance in PAT attributable to equity holders of the Group of RM2.186 million was attributable to the following:-**
- (a) Adverse variance of RM0.343 million due to a further provision of ECL under Malaysian Financial Reporting Standard 9 (Financial Instruments) for the Cuckoo Napure Collaboration of which the collection of monthly rental is spread over 3 to 5 years; and*
- (b) Adverse variance of RM1.843 million on income taxation due to additional provision of deferred taxation as a result of the timing difference on taxation in respect of the recognition of interest income in accounting profit and taxable profit under the “Rent-to-Own” model, of which the Group has yet to receive the rental payment as at 31 December 2022. The deferred interest income which was not billed to customers was not subject to income tax for the FYE 2022 but is required to make a provision for deferred taxation due to taxable temporary difference.*
- (ii) The Company has neither received any query nor enforcement decision from Bursa Securities pertaining to item A4(i) thus far.*
- (iii) The Group provides an ECL of 4% on the total outstanding collection from Cuckoo Napure Collaboration.*
- (iv) The Group recorded mattress sales of approximately 7,000 pieces and 12,000 pieces under the Cuckoo Napure Collaboration in 2021 and 2022 respectively and targets to achieve sales of 20,000 pieces in 2023.*

Q5 Will the Company implement the share buy-back?

A5 The Company has bought back 6,403,400 Ordinary Shares as of to date. The Company buys back its own shares when the Board deems it fit and in the interest of shareholders. The Proposed Share Buy-Back, if implemented, may also assist in stabilising the supply and demand as well as the market price of the Company's shares traded on Bursa Securities.