



29 November 2022

**Minority Shareholders Watch Group
(Badan Pengawas Pemegang Saham Minoriti Berhad)**

Level 23, Unit 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Attn: Mr Devanesan Evanson (Chief Executive Officer)

28th Annual General Meeting ("28th AGM") of Rhong Khen International Berhad ("the Group" or "the Company" or "RKIB") to be held on Tuesday, 29 November 2022

Reference is made to your letter dated 21st November 2022.

Refer below for replies to your queries.

Question # 1 - Operational & Financial Matters	<p><u>Question:</u></p> <p>The Group's revenue from its Vietnam operations fell by 20.7% (RM152.7 mil) in FY2022 mainly due to lower production days caused by the lockdown, manpower shortage issues and lower shipments due to US port congestions and limited shipping vessels (page 5 of AR 2022).</p> <p>(a) If the Vietnam operations were not faced with those issues, would the Group have been able to match or exceed its all-time high revenue of RM911.9 million achieved in FY2021? Were there sufficient orders in FY2022 that would have allowed the Vietnam operations to operate at optimal capacity?</p> <p>(b) Is the Group currently facing any operational issues at its factories in Vietnam, Malaysia or Thailand? What is the current utilisation rate at the Group's factories in Vietnam, Malaysia and Thailand?</p> <p><u>Reply for Question 1 (a):</u></p> <p>The Group may achieve revenue of FY2021 in FY2022 based on best case scenario assumption and the Group had sufficient orders to operate at optimal capacity in FY2022.</p>
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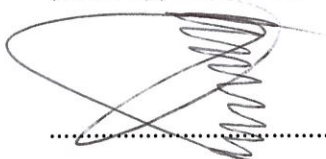
	<p><u>Reply for Question 1 (b):</u></p> <p>The Group is experiencing decline in orders from our key export market, United States ("US") due to over-inventoried situation. Current average utilisation rate of our factories is ranging from 70% to 80%.</p>
<p>Question # 2</p> <p>-</p> <p>Operational & Financial Matters</p>	<p><u>Question:</u></p> <p>Please explain your sales outlook for your key export market of US where aggressive interest rate hikes is causing a slowdown in home sales and consumer discretionary spending.</p> <p><u>Reply:</u></p> <p>The Group expected its orders to decline by 20% to 30% in FY2023 due to this challenging environment.</p>
<p>Question # 3</p> <p>-</p> <p>Operational & Financial Matters</p>	<p><u>Question:</u></p> <p>What are your expectations for profit margins in FY2023? Have your key input costs continued to rise or is it moderating and how much of this will be offset by the stronger US dollar?</p> <p><u>Reply:</u></p> <p>We expected our profit margin for FY2023 to be contracted due to higher minimum wages in the countries of our operation and lower plant utilisation due to insufficient orders despite average raw material prices is moderating and stronger US dollar.</p>
<p>Question # 4</p> <p>-</p> <p>Operational & Financial Matters</p>	<p><u>Question:</u></p> <p>Over the past couple of years, the Group has been upgrading its production lines with advanced and automated machinery to enhance production efficiency and reduce workers.</p> <p>(a) How much has the Group invested in upgrading its production lines and what was the cost savings as a result? How much has the Group reduced its labour dependency?</p> <p>(b) How much of your production requirements are outsourced to subcontractors?</p>

	<p><u>Reply for Question 4 (a):</u></p> <p>The Group invested RM4.1 million in FY2022 (FY2021: RM10.7 million) in advanced and automated machinery. With this, we are able to partially set off increase in labour cost due to higher minimum wages in the countries of our operation. We also managed to reduce our workers from approximately 7,000 workers in FY2018 to 5,900 workers in FY2022.</p> <p><u>Reply for Question 4 (b):</u></p> <p>It varies according to the orders that the Group receives monthly.</p>
<p>Question # 5</p> <p>-</p> <p>Operational & Financial Matters</p>	<p><u>Question:</u></p> <p>The Group changed its name from Latitude Tree Holdings Berhad in mid-2022 and the rationale given was to provide a new corporate identity to better reflect its core business and undertakings moving forward. The Group also said the name change was to cultivate market awareness of its upstream business (the manufacturing and sale of wooden furniture parts and components and decorative wood panels and papers), as it hopes to expand these businesses moving forward.</p> <p>(a) Please provide details on the expansion plans for your upstream businesses.</p> <p>(b) How much did the upstream businesses contribute to sales and profit in FY2022 and how much have they grown over the past five years? What are the long-term targets and growth prospects for these upstream businesses?</p> <p><u>Reply for Question 5 (a):</u></p> <p>Our upstream businesses are working closely with its domestic and international customers to develop new products that suit their requirements. We will also allocate additional capex to upgrade the production facilities of these upstream factories should the demand exceed our production capacities.</p> <p><u>Reply for Question 5 (b):</u></p> <p>These upstream businesses have grown significantly by approximately 70% over the past five years and we are hopeful they will contribute more to the Group coming financial years.</p>

<p>Question # 6</p> <p>-</p> <p>Operational & Financial Matters</p>	<p><u>Question:</u></p> <p>The Group, in its annual report in the past couple of years, mentioned that it has been on the lookout for acquisitions or joint venture opportunities that are related to and synergistic with its business activities. However, nothing has materialised so far.</p> <p>(a) What criteria do you use to identify potential acquisitions? What have been the challenges in finding a suitable acquisition?</p> <p>(b) Has there been an ongoing consolidation in the furniture manufacturing industry?</p> <p>(c) Do you think the industry is ripe for merger and acquisition activity, especially among Bursa-listed furniture companies as some are attractively trading at low single digit multiples coupled with high net cash positions?</p> <p><u>Reply for Question 6 (a):</u></p> <p>The most important criteria for the Group to identify potential acquisitions or joint venture opportunities is it must be related to the core activities of the Group and must be synergise with our business activities. One of the most obvious challenges would be credibility and trustworthiness of the potential acquisition parties.</p> <p><u>Reply for Question 6 (b) and (c):</u></p> <p>We are not in the position to give comment on these questions.</p>
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Thank you.

Yours sincerely,
Rhong Khen International Berhad
(formerly known as Latitude Tree Holdings Berhad)



Name: Lin, Chin-Hung
Designation: Managing Director