



29 November 2023

**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)

29th Annual General Meeting (“29th AGM”) of Rhong Khen International Berhad (“the Group” or “the Company” or “RKIB”) to be held on Wednesday, 29 November 2023

Reference is made to your letter dated 20th November 2023.

Refer below for replies to your queries.

<p>Question # 1 - Operational & Financial Matters</p>	<p><u>Question:</u></p> <p>High interest rates in the US affected furniture sales in the US as most of the customers had reduced orders by between 30% to 50%. The furniture industry also has to manage the over-inventoried situation in the US and rising labour costs in Malaysia and Vietnam (page 9 of AR 2023).</p> <p>(a) What are the revenue and segment results for both the Vietnam and Malaysia operations, respectively in FY2022 and FY2023?</p> <p>(b) What is the Board’s prospect on the over-inventoried situation in the US? Is the over-inventoried situation expected to continue throughout FY2024?</p> <p>(c) The Group reduced its total workforce to approximately 4,200 workers in FY2023 as compared to approximately 5,900 workers in the previous year (Page 4 of AR 2023 and page 4 of AR 2022). Besides, the workforce reduction, please elaborate on the cost-controlling strategies adopted in the upcoming year in tandem with the reduced sales order from the US market.</p>
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Reply for Question 1 (a):

We had disclosed revenue and segment results in our Quarterly Report under Note A12 – Segmental Information. Refer below for the extract segmental information of Vietnam and Malaysia operations for FY2023 and FY2022:

	Vietnam		Malaysia	
	FY2023 (RM'000)	FY2022 (RM'000)	FY2023 (RM'000)	FY2022 (RM'000)
Revenue	504,439	584,185	128,922	154,349
Profit/(loss) before taxation	32,353	40,542	(2,583)	10,657

Reply for Question 1 (b):

Based on our Quarter 1 FY2024 result, demand from our major export market i.e US has remained weak despite inventory level at warehouses of our major US customers are depleting. We expect high interest rate environment in US will continue to dampen furniture sales in US.

Reply for Question 1 (c):

We have other cost control strategies besides reduction in workforce. However, we regret to inform that we prefer not to elaborate on other cost controlling strategies adopted by the Group as we do not wish to share our strategies with our competitors.

Question # 2

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**Operational
& Financial
Matters**

Question:

The Group recorded higher manufacturing costs during FY2023 as a result of low orders environment and margin compression as discounts were given to the customers to boost shipments and retain orders (Page 4 of AR 2023).

- (a) Does the margin compression affect all products or a certain range of products offered by the Group?
- (b) What are the competitive advantages of the Group over the competitors? Is the Group able to leverage these competitive advantages to ease the margin compression?

Reply for Question 2 (a):

The discount program extended to our customers affecting certain range of products only.

Reply for Question 2 (b):

The Group has three (3) upstream furniture plants to support the wood raw material requirements of four (4) downstream furniture plants and also ensures stability supply of wood raw materials.

Question # 3
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Operational & Financial Matters

Question:

The Rental of Investment Properties Segment recorded consecutive losses of RM0.7 million and RM0.4 million in FY2023 and FY2022 respectively (Page 132 and 133 of AR 2023).

- (a) Please provide the breakdown for RM52.7 million investment properties as at 30 June 2023 in freehold lands and buildings.
- (b) What is the occupancy rate of these freehold lands and buildings under the investment properties in FY2023?
- (c) What are the reasons for the consecutive losses for this segment and does the Group plan to improve the ROA of these investment properties?

Reply for Question 3 (a):

Refer below for breakdown details of freehold lands and buildings as at 30 June 2023:

	RM million	Purpose
Freehold land – erected with buildings	7.4	Leased out to third party
Freehold land – vacant	31.1	For future use
Buildings	14.2	Leased out to third parties
Grand total	52.7	

Reply for Question 3 (b):

Refer purpose column in reply for question 3 (a) above.

	<p><u>Reply for Question 3 (c):</u></p> <p>Acquisition of a freehold land in FY2020 was financed by US Dollar Term Loan. The losses registered in FY2023 and FY2022 from Rental of Investment Properties segment mainly derived from unrealised forex loss due to translation of US Dollar term loan liability in Ringgit Malaysia as at balance sheet date. However, this segment contributed positive operating cash flow to the Group.</p>
<p>Question # 4 - Operational & Financial Matters</p>	<p><u>Question:</u></p> <p>The Group had on 20 September 2023 entered in a Memorandum of Understanding (“MOU”) with PTT Synergy Group Berhad (“PTTS”) to form a collaboration to establish a system pallet business with an intention to meet the increasing demand for efficient supply chain management and logistic services within an automated intralogistics warehouse (Company announcement dated 20 September 2023).</p> <p>(a) Please elaborate further on the Group’s motive and the potential synergy to venture into system pallet business.</p> <p>(b) What is the occupancy rate of these freehold lands and buildings under the investment properties in FY2023? What is the estimated revenue from producing and installing 200,000 units of system pallets stated in the MOU?</p> <p>(c) What is the current development of this proposed collaboration?</p> <p><u>Reply for Question 4 (a):</u></p> <p>The Group’s specialty is in the manufacturing of wooden furniture, components and parts. The raw materials for system pallet are mainly wood and similar to furniture parts and components. The main raw material input of wood for system pallet will enhance our wood material procurement and utilisation yield.</p> <p><u>Reply for Question 4 (b):</u></p> <p>Repeated question. Refer to answer of Question 3 (b). We are unable to provide or comment on financial data of this MOU as we are bound by restrictive terms of the Non-Disclosure Agreement signed.</p>

Reply for Question 4 (c):

As mentioned in reply for Question 4 (b), we will make necessary announcement to Bursa Malaysia Securities Berhad should there be any material development on this MOU.

Thank you.

Yours sincerely,
Rhong Khen International Berhad



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Name: Lin, Chin-Hung

Designation: Managing Director