



28 November 2024

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

23-2, Menara AIA Sentral

No. 30, Jalan Sultan Ismail

50250 Kuala Lumpur

Attn: Dr. Ismet Yusoff (Chief Executive Officer)

30th Annual General Meeting (“30th AGM”) of Rhong Khen International Berhad (“the Group” or “the Company” or “RKIB”) to be held on Thursday, 28 November 2024

Reference is made to your letter (Reference number: MSWG-CM-07-12/24) dated 25th November 2024.

Refer below for replies to your queries.

Operational & Financial Matters Question #1 – Financial Performance	Question:																						
	<table border="1"> <thead> <tr> <th>Five Years Financial Highlights</th> <th>2024 RM'000</th> <th>2023 RM'000</th> <th>2022 RM'000</th> <th>2021 RM'000</th> <th>2020 RM'000</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>521,624</td> <td>649,423</td> <td>756,324</td> <td>911,943</td> <td>684,740</td> </tr> <tr> <td>Profit for the year</td> <td>11,232</td> <td>21,855</td> <td>35,524</td> <td>53,791</td> <td>16,789</td> </tr> </tbody> </table>						Five Years Financial Highlights	2024 RM'000	2023 RM'000	2022 RM'000	2021 RM'000	2020 RM'000	Revenue	521,624	649,423	756,324	911,943	684,740	Profit for the year	11,232	21,855	35,524	53,791
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	<p>(Page 3 of the Annual Report (AR) 2024 /AR2024)</p> <p>(a) The Group's top and bottom lines declined after FY2021. What are the measures taken to improve the profitability of the Group in FY2024 and going forward?</p> <p>(b) As reported by NBC News on 9 November 2024, experts say the mortgage rate will likely stay above 6% for the foreseeable future.</p> <p>(Source: https://www.nbcnewyork.com/news/national-international/prospective-homebuyers-mortgage-rates-remain-elevated/5971437/)</p>																						

	<p>Does the Group foresee another tough year and sluggish orders from the United States? Given that the United States is the largest market for the Group's products (Page 102 of AR2024), what are some of the opportunities available to the Group in the next 12 months and what is its strategy for its geographical markets for its products?</p> <p><u>Reply for Question 1 (a):</u></p> <p>The Group has taken the following measures to improve the profitability of the Group since FY2022:</p> <ul style="list-style-type: none"> (i) Implement cost control strategies across all operating subsidiaries; (ii) Enhance production efficiency by upgrading our existing production lines with advanced and automated machinery; (iii) Continuous development of new products and designs with the prevailing market situation; and (iv) To reduce the concentration on US market by diversification into other segments and markets. <p><u>Reply for Question 1 (b):</u></p> <p>That was an opinion of experts only and may not necessary be the case. Anyway the Group has taken tremendous efforts to penetrate new markets over the years i.e. development of new products and designs that suits new market demand.</p>
<p>Operational & Financial Matters</p> <p>Question #2 – Gross Profit Margin</p>	<p><u>Question:</u></p> <p>In FY2024, the Group's gross profit margin (GPM) improved to 12.8% from 12.3% in FY2023, mainly due to better cost control and the strengthening of USD against RM (Page 6 of AR2024).</p> <ul style="list-style-type: none"> (a) Which of the Group's products had the highest margins in FY2024? Are these products expected to maintain their margins? (b) Is the cost control exercise ongoing? What entails and which cost component is subject to this exercise? (c) The RM has recently strengthened against the USD and may strengthen further by year-end, as the New Straits Times reported in its article "<i>Ringgit could strengthen to RM3.80 against the US dollar by end-2024: economists</i>", dated 29 September 2024. What is the outlook for the Group's overall GPM in FY2025, and can the Group maintain its double-digit margin?

	<p><u>Reply for Question 2 (a):</u></p> <p>Profitability of furniture products varies by customer, design, material or quantity. The Group has taken necessary steps to maintain its profit margin moving forward by working closely with our vendors and sub-contractors. High end products are usually contributing better profit margin.</p> <p><u>Reply for Question 2 (b):</u></p> <p>The cost control exercise is on-going and applies across our cost structures ie materials, labours and overheads.</p> <p><u>Reply for Question 2 (c):</u></p> <p>The Group hopes to maintain its double-digit margin for FY2025 based on the on-going cost control exercise implementation across all operating division. We are not able to comment on the article of the possibility of strengthening of RM by year end. However, for the benefit of the shareholders, this is unlikely to have a major impact on the Group’s gross profit margin.</p>
<p>Operational & Financial Matters</p> <p>Question #3 – Capital Expenditure</p>	<p><u>Question:</u></p> <p>In FY2024, total capital expenditure (CapEx) incurred by the Group was RM8.8 million, mainly on plant and machinery and construction of a workers’ quarter at one of its Malaysia plants. The addition of plant and machinery was to upgrade its existing production lines with advanced and automated machinery to enhance production efficiency further and reduce workers. The construction of a workers’ quarter provides a centralised, systematic, and conducive living environment for its workers (Page 7 of AR2024).</p> <p>(a) What is the RKIB’s budget CapEx requirement for FY2025, and what is its allocation for?</p> <p>(b) What is the progress of the abovementioned initiatives? In terms of operational efficiency, what is the optimal level between machine and human workers that RKIB aspired to achieve in the long run?</p> <p><u>Reply for Question 3 (a):</u></p> <p>The Board of RKIB had approved the CapEx budget of approximately RM10.0 million for FY2025 to purchase new machinery with better performance or advanced technology.</p>

	<p><u>Reply for Question 3 (b):</u></p> <p>The initiative is on-going, and we noted improvement in production efficiency and reduced reliance of workers over the years. We are planning to achieve an optimal level of at least 30% to 50% between machine and human workers.</p>																
<p>Operational & Financial Matters</p> <p>Question #4 – Future Prospect</p>	<p><u>Question:</u></p> <p>The Group is always ready for any acquisition or joint venture (JV) opportunities for business or assets that are related and synergise with RKIB's activities (Page 9 of AR2024).</p> <p>Are there any talks or discussions with any parties regarding potential acquisition or JV opportunities for the business or assets so far? If so, what is the update on this?</p> <p><u>Reply:</u></p> <p>There is none as at the date of this letter.</p>																
<p>Sustainability Matters</p> <p>Question #5 – Energy Management</p>	<p><u>Question:</u></p> <div data-bbox="422 1238 1337 1570" data-label="Figure"> <table border="1"> <caption>Consumption of solar powered electricity (MWh)</caption> <thead> <tr> <th>Fiscal Year</th> <th>Consumption (MWh)</th> </tr> </thead> <tbody> <tr> <td>FY2022</td> <td>90.7</td> </tr> <tr> <td>FY2023</td> <td>2,377.0</td> </tr> <tr> <td>FY2024</td> <td>3,177.5</td> </tr> </tbody> </table> <p>(Page 45 of AR2024)</p> <div data-bbox="422 1648 1337 2000" data-label="Figure"> <table border="1"> <caption>Comparison of Energy Sources (MWh) - FY2024</caption> <thead> <tr> <th>Energy Source</th> <th>Consumption (MWh)</th> </tr> </thead> <tbody> <tr> <td>Diesel</td> <td>3,527.4</td> </tr> <tr> <td>Solar-powered electricity</td> <td>3,177.5</td> </tr> <tr> <td>Purchased electricity</td> <td>27,827.7</td> </tr> </tbody> </table> <p>(Page 46 of AR2024)</p> </div> </div>	Fiscal Year	Consumption (MWh)	FY2022	90.7	FY2023	2,377.0	FY2024	3,177.5	Energy Source	Consumption (MWh)	Diesel	3,527.4	Solar-powered electricity	3,177.5	Purchased electricity	27,827.7
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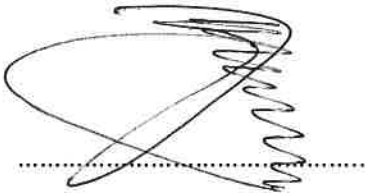
	<p>Despite the increased consumption of solar-powered electricity to 3,177.5 megawatt-hours (MWh) in FY2024, it is still low compared to non-renewable sources, representing only 9.22% out of the total MWh of 34,532.6. This condition presents an opportunity to increase the consumption of solar-powered electricity. Currently, the Group has solar panel systems in two manufacturing sites (Page 45 of AR2024).</p> <p>(a) As solar panels can significantly reduce a business's carbon footprint and lower electricity bills through less reliance on the electricity grid, what is the prospect of the use of solar panels and installing another solar panel system soon since the Company has the total site area of the seven (7) manufacturing plants (Page 10 of AR2024)?</p> <p>(b) What is the Group's targeted energy consumption mix in the next two financial years, if any?</p> <p><u>Reply for Question 5 (a):</u></p> <p>One of our Vietnam subsidiaries has entered into rooftop solar power purchase agreement with a solar vendor in Vietnam in Q4FY2024. This subsidiary is currently waiting for Vietnam regulatory approval before installation. The commissioning of the solar system is expected to be in Quarter 1 FY2026.</p> <p><u>Reply for Question 5 (b):</u></p> <p>We will set an energy target in coming financial years after assessing the feasibility of our energy trends.</p>
<p>Corporate Governance Matters</p> <p>Question #6 – Corporate Governance</p>	<p><u>Question:</u></p> <p>Practice 1.4 of Malaysian Code on Corporate Governance (MCCG) states that the Chairman of the board should not be a member of the Audit Committee, Nomination Committee or Remuneration Committee.</p> <p>The Company has not applied Practice 1.4 of MCCG (CG Report 2024).</p> <p>The Chairman of the board should not be involved in these Board committees to ensure a check and balance and objective review by the Board (Guidance/G1.4 of MCCG).</p>

Reply:

Specific Terms of Reference were adopted by each of the Board Committees, which clearly laid down the roles and responsibilities of the members. Therefore, despite Dato' Dr Norraesah holds the position as the Chairman of the Board, being an Independent Chairman and a well-trained finance professional, her objectivity and independence is least possible to be impaired given the degree of professionalism from RKIB's interaction with and understanding of Dato' Dr Norraesah. All Board members are well aware of that ultimately, the Board collectively is responsible for overseeing all matters relating to the Group.

Thank you.

Yours sincerely,
Rhong Khen International Berhad

A handwritten signature in black ink, appearing to read 'Lin, Chin-Hung', is written over a horizontal dotted line.

Name: Lin, Chin-Hung
Designation: Managing Director