

28 October 2021

**BADAN PENGAWAS PEMEGANG SAHAM MONORITI BERHAD**

Tingkat 11, Bangunan KWSP

No. 3, Changkat Raja Chulan

Off Jalan Raja Chulan

50200 Kuala Lumpur

Attention: Devanesan Evanson  
Chief Executive Officer

Dear Sir/Madam,

**Re: 18<sup>th</sup> Annual General Meeting (“AGM”) of Kein Hing International Berhad (“KHIB” or “the Company” or “the Group”) to be held on 28 October 2021**

With reference to your letter dated 7 October 2021, we are pleased to answer the points you have raised in the interest of minority shareholders and all other stakeholders of the Group.

**Strategy/ Financial Matters**

1. Covid-19 Pandemic

What is the expected impact of the pandemic on KHIB’s operations and financial position in FY2022?

How is the Board planning to mitigate the impact of the pandemic on KHIB’s operations in Malaysia and Vietnam?

KHIB’s reply:

In the 1<sup>st</sup> Quarter of FY2022, the Group revenue dropped by RM 20.9 million or -31% as compared with immediate preceding quarter due to the pandemic.

The Group has implemented various cost reduction measures to cushion this impact. The Board is of the opinion that the Group should recover in the 2<sup>nd</sup> half of the financial year and this will mitigate the loss suffered in the 1<sup>st</sup> quarter of FY2022.

## 2. Financial Performance

The Group's profit before tax increased significantly from RM 4.3 million in FY2020 to RM 16.7 million in FY 2021, representing an increase in RM 12.4 million or 287%. (Page 20 of the Annual Report 2021)

Is the good performance sustainable in FY2022?

What competitive advantages does the Group have over its peers in the market?

KHIB's reply:

In the 1<sup>st</sup> quarter of FY2022, the Group suffered a loss of before tax of RM 0.4 million due to the pandemic, therefore the Group will not be able to achieve the same profit before tax in FY2022.

The Group's main competitive advantages are its engineering skills and proven track records.

## 3. Factories

- (a) What is the current and previous year's capacity utilization rate for the Group's factories in Malaysia and Vietnam?

KHIB's reply:

Subsequent to the 1<sup>st</sup> quarter of FY2022 and after easing of containment measures, the latest capacity utilization rates for the Group's factories in Malaysia and Vietnam have resumed 80% (FY2021: 80%). These are the planned optimal utilization rates that the Group expects for the factories in FY2022.

- (b) What is the progress in the construction in the extension of Kein Hing Thai Nguyen (Vietnam) Co., Ltd. (KHTV) factory? Is the construction work on schedule?

What is the budget requirement for the machines and equipments for the enlarged KHTV factory?

KHIB's reply:

The construction of the extension of KHTV factory is on schedule and it will be handed over by the main contractor in mid-November 2021.

The budget requirement is RM 2.0 million for the machines and equipments for the enlarged KHTV factory, and KHTV will invest more if there are potential customers in the future.

- (c) What is the current state of the Group's manufacturing capacity? What is target improvement in productivity and efficiency in FY2022?

KHIB's reply:

In terms of manufacturing capability, the Group has fulfilled the current stringent standards set by MNC customers.

The Group targets to improve productivity and efficiency by 10% in FY2022.

- (d) The Group's Malaysia operation is considered labour intensive. The constraint in labour supply in Malaysia and the shortages of workers may adversely affect the Group's performance and continuing ability to compete effectively in the industry.

(page 22 of the Annual Report 2021).

To what extent does the constraint in labour supply affect the Group's Malaysia operation to date?

Are the various current measure implemented by the Group sufficient to mitigate this risk?

KHIB's reply:

The shortages of workers have affected and limited the growth in the Group's Malaysia operation.

In view of this risk, the Group has been expanding its manufacturing operation in Vietnam by investing in new machines and construction of new factories over the last few years.

#### 4. Trading

The trading in Zenne gas appliances and other home appliances is another business segment, but it is not significant as it contributes 4% (2020: 3%) to the Group's revenue. (Page 16 of the Annual Report 2021)

- (a) What is the prospect of the Group's trading business, and the expected contribution of the segment to the Group's revenue in FY2022?

KHIB's reply:

Due to the pandemic, the prospect of the Group's trading business may still be impacted and the expected contribution of this segment to the Group's revenue may remain at 3 to 4% in FY2022.

- (b) What is the targeted sales growth for Zenne gas appliances and other home appliances in the next two financial years?

KHIB's reply:

The Group's trading business may be maintained at the current level as the Group will focus more on manufacturing business and Vietnam expansion plan in the next two financial years.

#### **Corporate Governance Matters**

1. The total fee for the internal audit function of the Company during the financial year ended 30 April 2021 was RM23,250.

(Page 50 of the Annual Report 2021).

Given that the fee is rather small (approximately RM1,938 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?

What are the areas covered by the internal audit functions?

How many internal audit reports were issued during the said period?

KHIB's reply:

The Internal Auditors provided the Audit Committee with four (4) reports for the financial year highlighting observations, recommendations and management action

plans to improve the system of internal control based on the Internal Audit Plan approved by the Audit Committee.

During the financial year, the Internal Auditors covered eight (8) internal audit reviews or areas as disclosed on Page 50 of the Annual Report 2021.

The Board will continue to review the frequency of internal audit and the cost amid the pandemic going forward.

We thank Minority Shareholder Watch Group (“MSWG”) for its continuing interests in our Company and we take this opportunity to highlight that the Board of Directors of KHIB fully supports the work of MSWG in promoting good corporate governance best practices in PLCs.

Thank you.

Yours sincerely,

For and on behalf of

KEIN HING INTERNATIONAL BERHAD

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Yap Toon Choy

Managing Director

c.c. Company Secretary