



LKL INTERNATIONAL BERHAD

201501014673 (1140005-V)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE EIGHTH ANNUAL GENERAL MEETING OF LKL INTERNATIONAL BERHAD (“LKL” OR “THE COMPANY”) HELD ON WEDNESDAY, 31 MAY 2023 AT 10.00 A.M.

REPLY TO QUESTIONS FROM THE MINORITY SHAREHOLDERS WATCH GROUP

The Assistant Company Secretary presented to the Shareholders, the questions received from Minority Shareholders Watch Group (“MSWG”) and the responses to MSWG as follows:-

Operational / Financial Matters

Q1. During the financial period ended 2022 (FPE2022: 15-month period), the Group registered a Losses Before Interest, Tax, Depreciation and Amortisation (LBITDA) of RM17.56 million after taking into account of non-cash accounting adjustments to write down the fair value of the quoted investments of RM12.80 million and deterioration in the net realisable value of aged nitrile glove inventories held in hand of RM16.06 million. It is noticeable that, without these non-cash accounting adjustments, the Group would have achieved an Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM11.30 million for the FPE 2022 (Page 6 of the Annual Report 2022/AR2022).

(a) Which quoted investments are involved in the fair value reduction/loss exercise? What is the rationale for acquiring those quoted investments?

The Group had on 27 January 2022 announced the acquisition of 60,196,966 ordinary shares of Parlo Berhad (“Parlo”) for a total cash consideration of RM13,243,332.52 or RM0.22 per share, representing 13.78% of the total issued shares of Parlo. The acquisition allows LKL to tap into the business opportunity in trading medical and pharmaceutical related products via V Care Industries (Malaysia) Sdn. Bhd., a 51% owned subsidiary of Parlo.

On 7 March 2022, the Group announced the acquisition of 250,000,000 new ordinary shares of Vizione Holdings Berhad (“Vizione”) via subscription of excess rights shares with free detachable warrants on the basis of 1 Warrant for every 2 Rights Shares subscribed for. The cash consideration paid for the acquisition of Vizione was RM20,000,000.00, representing RM0.08 per share. The investment in Vizione is expected to hold for trading as Vizione has great business opportunities in its Program Perumahan Rakyat (PPR) property development projects and its new collaboration in the energy segment.

The Group applied the default category fair value through profit or loss with changes in the fair value of these equity instruments recognised in the profit or loss. As at 31 December 2022, the share price of Parlo and Vizione were reported lower at RM0.12 per share and RM0.05 per share respectively. The decline in the

share price of these quoted investments has resulted in an unrealised loss in the fair value of RM12.80 million in the profit or loss for the financial period ended 31 December 2022 ("FPE 2022").

- (b) How does the Board manage the risks of investing in quoted investments? What is the Board policy on investing in quoted investments? What is the selection process of investee companies?**

The investment in quoted shares is financed entirely via internally generated funds. This investment is designated to hold for short-term profit. Despite the share price is still being traded below the cost of such investment, the Board intends to hold it until the objective of achieving short-term profit is met.

In general, investment performance is determined by asset performance. Historically, stock assets have offered higher rates of return along with greater volatility. Fixed income assets generally yield lower rates of return, have a lower correlation with equities, and carry less risk. Diversification across asset geography and size is therefore recommended.

Our selection process of investee companies can be referred to our replied in item 1(a) above.

- (c) How does the Board plan to address the deterioration in the net realisable value of the aged nitrile glove inventories before it becomes obsolete?**

The medical glove inventories in hand at 31 December 2022 stood at its net realisable value of RM1.251 million for a total quantity of 510,004 boxes, of which the Group has delivered 282,986 boxes of these inventories since the beginning of the new financial year of 2023 at best offered price for the contracts secured in 2022 & 2023. The Group will continue to deliver the remaining glove inventories in hand to customers in the coming periods.

Q2. Key Challenges

- (a) Fluctuation in the price of raw materials**

To mitigate the rising costs, the Group also seeks to expand and enhance its product portfolio to cater for a wider range of needs as well as high value segments and streamline the existing manufacturing processes to improve production capacity (Page 12 of AR2022).

- (i) What is the update on expanding and enhancing the product portfolio and streamlining the existing manufacturing process?**

The aftermath of the Covid-19 pandemic has redesigned healthcare delivery for the future and accelerated demands for all varieties of remote healthcare, including home-based care, retail pharmacy and over-the-counter (OTC) healthcare services.

To tap into these business opportunities, the Board intends to expand its marketing arms into trading of wearable healthcare gadgets and other remote healthcare products designed for home-care friendliness, while still maintaining its core focus on the key market segment for the supply of medical beds and hospital furniture to the primary care delivery.

The Board is also engaging with its business partner to finalise the designs and the strategic plans of the targeted pharmacy's new outlets in Klang Valley which the Board shall make announcements regarding this in due course. This expansion plan will improve our pricing power immediately as a result of increased volumes to be generated from these additional outlets. Additionally, the Board will continue to set up more strategic outlets to benefit from prominent savings in the supply chain, thereby providing more cost savings for customers.

(ii) What is the targeted product portfolio enhancement and improvement in production capacity for FY2023?

Similar answers have been provided in the earlier question.

(b) Competitive market environment

To remain competitive, the Group focuses on its ability to customise its manufactured products, explore opportunities and invest in research and development (R&D) to broaden its existing product portfolio to meet various market needs (Page 12 of AR2022).

(i) Has the Group embarked on customisation of its manufactured products? If so, what is the update on this exercise?

The Group's main strategies are always customer focused. The Group delivered over hundreds of customised products at affordable price to various customers including primary care delivery, private health care providers, nursing care centre and health institutes every year since the Group began its journey. The revenue generated from these customised products are prominent and the Group will continue to leverage on its in-house R&D capabilities to provide more customer-driven solutions to maintain resilience in the highly competitive market environment.

(ii) What is the update on the investment in the R&D? Is the R&D cost of investment benchmarked against certain items such as revenue, etc.? If so, what is the percentage?

Our in-house R&D team focused mainly on customisation and the development of feature enhancements of existing products. For FPE 2022, our R&D team has successfully designed and developed over hundreds of products with new enhancements in features and functionality to meet customers' requirements and specifications. These enhancements involved

digitalising or increasing the use of automotive technology in our product range, aiming to boost the unique user experience and flexibility in work at an affordable price.

These enhancements created and leveraged on the existing standard products with outstanding extensions require close collaboration with a third-party certification organisation consisting of manufacturers, suppliers, vendors, consultants, third-party certification firms, retailers, distributors and wholesalers, all of whom need to exchange knowledge with each other.

Our R&D team also participated in the international health expos and exhibitions post-pandemic, which enabled us to gain direct access to key resources to build long-term technical support for our future product development.

The costs incurred to carry out ongoing product research and development have been recognised in the profit or loss for the period, which has not materially affected the financial statements of the Group for FPE 2022.

Corporate Governance Matters

Q3. The total cost incurred for the outsourced internal audit function of the Group for the FPE2022 amounted to RM21,000 (Page 48 of AR2022).

Given that the fee is rather small (RM1,400 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 function? How many internal audit reports were issued during the said period?

The internal audit function covers various crucial areas within the Group, including inventory management, manufacturing, revenue and credit risk management, research and development, and human resource management. These areas play significant roles in the Group's operations and financial performance.

During the specified period, the internal auditor presented two internal audit reports to the Audit and Risk Management Committee. These reports contain detailed findings, recommendations, and conclusions based on the audits conducted. The specific audit areas covered in these reports are disclosed on page 50 of the Annual Report 2022.

By following a risk-based approach, conducting regular on-site audits, and addressing key areas of risk, the Audit and Risk Management Committee ensures that there is adequate coverage and an effective audit function in place. The internal audit reports serve as a mean to communicate the audit findings and recommendations to the Audit and Risk Management Committee, enabling them to take appropriate actions to address any identified issues or weaknesses.

- Q4. Under Ordinary Resolution 1, the Company is seeking shareholders' approval for the payment of additional Directors' fees and benefits of RM250,000.00 for the financial period ended 31 December 2022 [covering fifteen (15) months]. In the explanatory note to the ordinary and special business No. 2, it explains that the proposed amount of the earlier RM250,000 was insufficient due to the change of financial year of the Company (Notice of 8th AGM).**

For the record, in the last AGM (7th AGM), the Company sought shareholders' approval to pay Directors' fees and benefits of up to RM250,000.00 for the financial year ending 30 September 2022.

If shareholders approve this resolution, this means the Company will pay the directors' fees and benefits up to RM500,000.00

As the FPE2022 has an extended period of fifteen (15) months with only an extra three (3) months from the normal twelve (12) months financial year end, what is the rationale for asking shareholders' approval for another RM250,000.00 for the extra three (3) months? Please explain and justify.

The rationale for seeking shareholders' approval for an additional RM250,000 for the FPE 2022 was primarily due to two reasons. Firstly, it was related to the change of the Company's financial year end from 30 September to 31 December. This change resulted in a fifteen (15) month financial period, requiring additional funds to cover the extended period.

Secondly, the redesignation of Mr. Lim Ming Chang from an Executive Director to a Non-Independent Non-Executive Director occurred on 23 May 2022. This change in designation may have impacted the remuneration structure and required adjustments to Directors' fees and benefits.

To ensure proper financial planning and alignment with the revised financial year end and directorial changes, seeking shareholders' approval for the additional RM250,000 was deemed necessary. It aimed to ensure adequate funds are available to cover Directors' fees and benefits for the extended financial period and account for any related changes resulting from the redesignation of Mr. Lim Ming Chang.

- Q5. Under Ordinary Resolution 2, the Company is seeking shareholders' approval for payment of Directors' fees and benefits of up to RM400,000.00 for the period commencing from the date immediately after this 8th AGM until the next Annual General Meeting of the Company (Notice of 8th AGM).**

The estimated Directors' fees and benefits were calculated based on the current Board size and the number of scheduled Board and Committee meetings to be held (Notice of 8th AGM: EXPLANATORY NOTES TO ORDINARY AND SPECIAL BUSINESS, No. 3).

There have been no additional directors appointed during FPE2022.

- (a) What is the number of scheduled Board and Committee meetings to be held from the date immediately after this 8th AGM until the next Annual General Meeting of the Company?**

As a general guideline, it is common for companies to hold at least four (4) meetings on a quarterly basis during the financial year under review. However, additional meetings may be held as and when necessary. It's important to note that the actual number of meetings can vary based on the needs of the Company and the discretion of the Board and Committees.

- (b) Why is the Company seeking shareholders' approval for the payment of Directors' fees and benefits of up to RM400,000.00, which is a 60% increase from the previous year? Please explain and justify.**

It is important to note that the payment of Directors' fees and benefits amounting to up to RM400,000.00 is covered for the period from 1 January 2023 until the next Annual General Meeting of the Company to be held in year 2024, which exceeds 12 months. This is different from the previous year, where the coverage was limited to only 12 months, specifically from 1 October 2021 until 30 September 2022.

In addition, all public listed companies on Bursa Malaysia are required to have at least one (1) woman director by 1 June 2023. To comply with this listing requirement, the Company will need to appoint a woman director during the specified period. This appointment would entail additional director fees and benefits.

Lastly, The Board currently has a vacant position for the Chairman, as Tan Sri Datuk Adzmi Bin Abdul Wahab retired at the 6th Annual General Meeting held on 13 October 2020. The Company is actively seeking a suitable candidate to be appointed as the Chairman of the Board. The increase in Directors' fees and benefits may be attributed to the potential higher compensation expected for the Chairman's role.

In conclusion, the Company seeks shareholders' approval for the increased payment of Directors' fees and benefits to cater to a longer period as well as to provide a buffer for potential changes, comply with listing requirements regarding the appointment of a woman director, and accommodate the higher compensation expected for the new Chairman.

- Q6. Practice 5.9 of the Malaysian Code of Corporate Governance states that the board should comprise at least 30% women directors. Pursuant to LKL's explanation, the Board will take into consideration of female Director within the Board as a long-term goal to which incremental steps shall be taken to ensure it is adopted within the reasonable timeframe stipulated (Page 31 of CG report 2022).**

The Board currently does not have any woman director out of the six directors on the Board.

Please note that all public listed companies on Bursa Malaysia should have at least one-woman director by June 2023.

The Board acknowledges the mentioned practice and is actively involved in the process of identifying and recruiting a suitable female candidate to join the Board.

Due to confidentiality reasons, the appointment of a woman director cannot be made prior to this meeting. Please be assured that the Board is committed to ensuring compliance with the given timeline and will make every effort to appoint a qualified female director to our Board.