LKL INTERNATIONAL BERHAD

201501014673 (1140005-V)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE FULLY VIRTUAL NINTH ANNUAL GENERAL MEETING OF LKL INTERNATIONAL BERHAD ("LKL" OR "THE COMPANY") HELD ON THURSDAY, 30 MAY 2024 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:-

<u>Operational & Financial Matters</u>

1) **The Group reported a gross profit of RM16.020 million representing of 7.63% increase from the previous financial period ended 31 December 2022 ("FYE 2022"), totalling a gross profit margin of 35.94% for the current financial period despite a gross loss incurred during the first five months of the operations of the six (6) new pharmacy outlets which have commenced businesses in August 2023 (Page 24 of the Annual Report 2023/AR2023)**

   a) **Which products and segments contributed to the higher gross profit in FYE 2023?**

      The manufacturing segment has normally maintained a higher profit margin. In FYE 2023, this trend continued, with the manufacturing division being a significant contributor to the Group's overall gross profit margin. The division's focus on the production of medical/healthcare beds, medical peripherals, and accessories has played a crucial role in sustaining and enhancing the Company's profitability. Despite the challenges faced by the retail division during the initial phases of operation for the newly opened pharmacy outlets, the manufacturing division's strong performance has played a key role in maintaining overall decent gross profit margin.

   b) **How can LKL improve its gross profit margin level further?**

      To further improve our gross profit margin across all segments, the Group aim to prioritise higher-margin products within its product mix by conducting thorough market research, identifying customer preferences, and aligning product development efforts with the demand for premium offerings. Additionally, the Group plans to optimise costs by continually reviewing and refining its production processes. By identifying opportunities for streamlining operations, reducing waste, and enhancing resource utilisation, the Group seek to minimise production expenses without compromising product quality. Through these concerted efforts, the Group is positioned to elevate its gross profit margins across all segments, reflecting its commitment to sustainable growth and maximising shareholder value.

c) **What is the outlook for the Group's overall gross profit margin in the financial year ending 31 December 2024 ("FYE 2024"), including the new pharmacy outlets under the retail segment? Can the pharmacy outlets' operations report a gross profit margin in FYE 2024? If not, why?**

Regarding the outlook for the Group's overall gross profit margin in FYE 2024, including the retail segment, a positive trajectory is anticipated. Although incorporating the operations of the new pharmacy outlets presents initial challenges, the Group expects an improved performance of the retail segment and its contribution to the Group's overall gross profit margin.

It's crucial to acknowledge that achieving a positive gross profit margin in the first operational year for the pharmacy outlets could be challenging due to various factors. Initial setup costs, promotional activities, and operational adjustments often lead to increased expenses during the early stages of operation. Additionally, competitive market dynamics and regulatory compliance requirements may impact profitability in the short term.

However, despite these challenges, LKL is implementing strategic measures to ensure the efficient operation of the pharmacy outlets and mitigate potential margin pressures. These measures include optimising inventory management, enhancing operational efficiency, and leveraging synergies with existing retail operations. Furthermore, as the new outlets mature and gain traction within their respective markets, improvements in profitability over time are anticipated.

Although a positive gross profit margin for the pharmacy outlets in FYE 2024 cannot be guaranteed, the Company remains committed to closely monitoring their performance, implementing appropriate cost-control measures, and capitalizing on revenue-generating opportunities to maximise profitability.

2) **The Group posted a loss before tax of RM2.890 million for the current financial period mainly due to an impairment made in relation to the glove inventories and initial set up cost and operating loss incurred from pharmacy business during the current financial period (Page 24 of AR2023).**

a) **Does the Group expect another impairment exercise to recur for glove inventories in FYE 2024? If so, what is the probable impact on the pre-tax earnings?**

The impairment exercise for glove inventories cannot be definitively predicted in FYE 2024 as it will depend on the overall market condition of the products. If adverse conditions persist, it could impact pre-tax earnings. However, the Company has decided not to further invest in the glove business. Therefore, any impairment will be lower as it is based on the existing stocks.

b) **What is the current state of performance for the pharmacy business?**

Currently, the pharmacy business has not yet reached the breakeven point or achieved profitability. However, in order to leverage economies of scale and enhance its viability, the Company plans to open additional pharmacy outlets in this financial year. This strategic expansion initiative aims to increase market presence, optimise operational efficiencies, and expedite the journey to profitability for the pharmacy business.

3) The Group's Other Investments (Investment in quoted shares) increased from RM24.703 million in 2022 to RM38.015 million in 2023 (Page 125 of AR2023).

There was a fair value loss on other investments amounting to RM2,305,599 in FYE 2023 (Page 136 of AR2023).

a) Please provide a breakdown by stock name and amount of the quoted shares that the Company invested in 2023 and 2022.

The breakdown is as follows:

Year	Stock Name	Investment Amount (RM)
2022	PARLO	16,288,313
	VIZIONE	20,000,000
2023	KOMARK	4,400,000
	OVERSEA	5,000,000
	SYMLIFE	6,375,000

b) What is the rationale for purchasing quoted shares?

The rationale for purchasing quoted shares lies in the potential for capital appreciation and dividend income. By investing in quoted shares, the Company seeks to diversify its investment portfolio and capture opportunities in the financial markets. Quoted shares offer liquidity and transparency, allowing the Company to easily buy and sell positions based on market conditions and investment objectives. Additionally, investing in quoted shares provides exposure to a wide range of industries and companies, enabling the Company to benefit from the growth and performance of various sectors. Despite the fair value loss experienced in FYE 2023, LKL remains committed to prudent investment practices and continues to assess opportunities for long-term value creation in the quoted shares market.

c) Was the abovementioned fair value loss related to investment in quoted shares? If so, which quoted shares contributed to the fair value loss of RM2,305,599 in FYE 2023?

The abovementioned fair value loss is related to the investment in quoted shares. However, it is challenging to specify which quoted shares contributed to the fair value loss of RM2,305,599 in FYE 2023, as the portfolio of quoted shares consists of multiple investments, and the fair value adjustments result from fluctuations in the market prices of these various investments over the financial period.

d) How does the Board manage the risks associated with investing in quoted shares? Please elaborate on the current risk management and decision-making processes when investing in quoted shares.

The Board manages risks associated with investing in quoted shares through a robust risk management framework. This involves thorough due diligence before making investment decisions and ongoing monitoring of market dynamics.

Decision-making is collaborative, considering factors like market conditions and investment performance. Despite temporary declines in share prices, the Board intends to hold investments until short-term profit objectives are met, financed entirely through internally generated funds.

<u>Sustainability Matters</u>

4) The Group is involved in the provision of medical or healthcare beds, medical equipment, composite dressing, medical peripherals and accessories. The Group diverse range of products are used in/by a wide portfolio of customers such as hospitals and medical centres, as well as other healthcare-related facilities such as clinics and specialist institutions. As of today. LKL brand & products have been widely used locally with the majority market share as well as in overseas, reaching a milestone of 50 countries across 6 continents (Page 4 of AR2023).

a) Any potential impacts of climate change could affect the Group's market share, business, and customers.

Climate change poses significant potential impacts on the Group's market share, business, and customers. As a provider of medical and healthcare equipment, climate change will affect the Group by causing disruptions in supply chain, increasing operational and compliance costs, changing customer preferences towards sustainability, and impacting overall market dynamics. These factors require strategic planning and innovation to mitigate risks and capitalise on emerging opportunities.

b) How does the Group intend to address any potential impacts of climate change affecting its market share domestically and overseas, as well as its business and customers?

LKL recognises the significance of addressing the potential impacts of climate change on its domestic and overseas market share, as well as its business and customers. To effectively mitigate these impacts, the Company plans to implement the following strategies, as outlined on page 44 of the Annual Report:

i) Managing company emissions through continuous research and development and improving process flow;
ii) Investing in low-emission and green technologies; and
iii) Leveraging partnerships and collaborations with stakeholders.

These strategies underscore LKL's commitment to responsible environmental stewardship and proactive adaptation to the challenges posed by climate change.

Corporate Governance Matters

5) **We take note of the retirement of Messrs. UHY as Auditors of the Company at the conclusion of the 9th AGM as stated in the Notice of 9th AGM. However, we would like to ask the following question:**

   What were the reasons for Messrs. UHY not to seek re-appointment as Auditors of the Company at the upcoming AGM?

   Messrs. UHY has chosen not to seek re-appointment as Auditors of the Company at the upcoming AGM due to resource constraints. Both the Board and Management maintain a positive relationship with Messrs. UHY, and there are no other matters that prompted their retirement at the conclusion of this AGM.

   The Board would like to seize this opportunity to express its gratitude to Messrs. UHY for their service during their tenure as the Auditors of the Group.

6) **Practice 5.9 of the Malaysian Code of Corporate Governance ("MCCG") states that the Board should comprise at least 30% women directors.**

   The Board currently has one (1) female director out of eight (8) directors, which represents 12.5% of women on board.

   On the explanation for the departure from applying Practice 5.9 of MCCG (Page 32 of the Corporate Governance Report), the Company states that "the Board is of the view that it is important to recruit and retain the best available talent regardless of gender, ethnicity and age to maximise the effectiveness of the Board. Women's representation on the Board and in Senior Management will be taken into consideration when vacancies arise and suitable candidates are identified, underpinned by the overriding primary aim of selecting the best candidate to support the achievement of the Company's strategic objectives".

   According to the Malaysia Board Diversity Study by the Institute of Corporate Directors Malaysia, boards with at least one-third women representation correlate with 38% higher median ROE than boards with no women representation. A larger representation of women seems to suggest more inclusive boards.

   We call upon the board to appoint more women directors without waiting for vacancies to arise, recognising the critical importance of gender diversity in enhancing corporate governance and decision-making. Diverse boards are proven to drive better business performance, innovation, and sustainability. To ensure the appointment of highly qualified female directors, we recommend sourcing candidates from esteemed professional organisations such as the 30% Club Malaysia and the Institute of Corporate Directors Malaysia (ICDM). By taking proactive steps towards inclusivity, the board will not only reflect the diverse perspectives of its stakeholders but also set a benchmark for industry excellence and leadership in corporate responsibility.

The Board acknowledges the mentioned practice and will make every effort to appoint a qualified female director to the Board. Women's representation on the Board will be taken into consideration when vacancies arise and suitable candidates are identified, while maintaining the primary aim of selecting the best candidate to support the achievement of the Company's strategic objectives.

The Board recognises that diversity, including gender diversity, brings fresh perspectives to boardroom deliberations, ultimately benefiting the organisation. While the Company has not yet achieved the 30% women's representation at the Board level, decisions are made objectively in the best interests of the Group, considering diverse perspectives and insights.

The Board believes it is essential to recruit and retain the best available talent regardless of gender, ethnicity or age, to maximise the effectiveness of the Board.

QUESTIONS RAISED BY THE SHAREHOLDERS DURING THE MEETING

There were several questions posed by the Shareholders during the live streaming which were duly responded to by En. Zulkarnin Bin Ariffin, the Executive Director of the Company. The Q&A provided, where relevant, are as summarised below:-

Q1. Will the Company provide door gifts as a token of appreciation to the Shareholders in recognition of their attendance at the Meeting?

It is not the current practice of the Company to provide door gifts to the Shareholders. However, the Board took note of this request and will consider it for future meetings.

Q2. Are all the Directors participating in today's Meeting?

Yes, all Directors are attending the Meeting today.