LKL INTERNATIONAL BERHAD

201501014673 (1140005-V)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE EXTRAORDINARY GENERAL MEETING ("THE MEETING") OF LKL INTERNATIONAL BERHAD ("LKL INTERNATIONAL" OR "THE COMPANY") HELD ON FULLY VIRTUAL AND ENTIRELY VIA REMOTE PARTICIPATION AND VOTING VIA ONLINE MEETING PLATFORM AT TIIH ONLINE WEBSITE AT HTTPS://TIIH.ONLINE (DOMAIN REGISTRATION NUMBER WITH MYNIC: D1A282781) PROVIDED BY TRICOR INVESTOR & ISSUING HOUSE SERVICES SDN. BHD. WHICH WAS DEEMED TO BE HELD WHERE THE CHAIRMAN OF THE MEETING WAS IN MALAYSIA ON MONDAY, 19 JULY 2021 AT 4:00 P.M.

REPLY TO QUESTIONS RECEIVED FROM THE MINORITY SHAREHOLDERS WATCH GROUP ("MSWG")

Mr. Lim Ming Chang, the Executive Director of the Company, presented the questions received from the MSWG along with the replies from the Board as summarised below:-

Q1. The Company plans to diversify its business into the rubber gloves and PPE (Personal Protection Equipment) sector in line with the strong demand for these products brought about by the surge in Covid-19 cases around the world. (Page 2 of the Circular).

A. Reports have shown that the Average Selling Prices (ASPs) of rubber gloves have peaked and but are now on a downward trend. Why is the Company embarking on this business when the ASPs are declining?

The Company is of the view that the demand for rubber gloves and PPE will remain strong domestically and internationally.

The Malaysian Rubber Glove Manufactures Association ("MARGMA") expects a shortfall of 80 billion pieces of rubber gloves this year as demand continues to outstrip supply. Thus, the Company is of the view that ASPs of rubber gloves will not decline dramatically in the immediate term. In any event, the Company foresees that reasonable profit can still be obtained even if the ASPs were to be normalized.

B. What is the expected contribution to the profitability of the Company in FYE 2022 from the new businesses? What are the anticipated margins from these businesses?

We expect a significant contribution from the new business to the profitability of the Company thus we are seeking shareholders' approval upfront to undertake the Proposed Diversification. The anticipated margins for the new businesses are within the market practice.

Q2. The Company has no prior knowledge of the businesses that it intends to venture into. How will the Company acquire the knowledge and expertise of the new businesses?

The Company's background in the healthcare industry puts the Company in an advantageous position to embark on the new businesses as the Company can leverage on its track record as a reputed healthcare player with 28-years of history, and its existing business networks for the sales and distribution of rubber gloves and PPE. Coupled with the fact that trading of rubber gloves and PPE does not require a high degree of technical expertise, the Company believes that it will be able to embark on the new businesses and generate an additional revenue stream to the Company, thereby improving its financial performance.

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QUESTIONS RECEIVED FROM THE SHAREHOLDERS BEFORE THE MEETING

Q1. The contribution of new businesses dropped from profit after tax of RM908,000 to RM7,000 as observed in the 9-month results up to 31 January 2021. Why has the contribution decreased so drastically?

It was due to the temporary higher cost of gloves procured. However, we expect an improvement in the subsequent quarters, through the increase of our gloves procurement from AT Glove Engineering Sdn Bhd which comes at a more favourable rate. We have an existing distribution agreement with AT Glove Engineering Sdn Bhd to market, sell, and distribute latex and nitrite gloves.

Q2. The Group had supplied 5,054 cartons (0.05 million boxes) of nitrile gloves to Weihai Textile Group Import and Export Co. Ltd ("Weihai Textile"), and 10,548 cartons (0.11 million boxes) of nitrile gloves to Shang Hong International (Hong Kong) Limited ("Shang Hong"). How much revenue has been generated from these two customers?

The revenue generated from the delivery of gloves was approximately USD1.25 million as of 31 March 2021.

Q3. Are the remaining orders from Weihai Textile and Shang Hong non-cancellable? Since the supply of nitrile gloves to these customers are upon their PO requests, is there any expiry date/period for them to procure the remaining orders from the Group?

While the contracts are cancellable, we are expecting both contracts to be fulfilled by December 2021. In the unlikely event of non-delivery, we are confident of selling to other parties due to the robust market demand.

Q4. If the Proposed Private Placement is being rejected by the shareholders, what is the backup plan for the Group to continue the new businesses, especially to fulfill the future orders from Weihai Textile and Shang Hong amounted to RM245.89 million?

The Group will use its internally generated funds, bank borrowings, or payments received from Weihai Textile and Shang Hong as the backup plan for the Group.

Q5. With reference to page 9 of the Circular, how many months of rental do the rental costs of RM770,000 account for?

The rental cost of RM770,000 was covering 24 months period of rental of storage facilities.

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QUESTIONS RECEIVED FROM THE SHAREHOLDERS DURING THE MEETING

Q6. How many more suppliers do you intend to enter into supply contracts with?

We aim to have a manageable pool of three to five suppliers for reliability and competitive reasons.

Q7. How much is the balance contract value yet to be fulfilled to Weihai Textile and Shang Hong?

The contract with Weihai Textile amounts to USD18.96 million, and we have delivered about 2 percent of the total 240 cartons of nitrite gloves contracted. Additionally, our contract with Shang Hong amounts to USD40.07 million. We have delivered about 2.5 percent of the 421,800 cartons of nitrile gloves.

Q8. Is the Company targeting more local or export sales for the PPE, and what would be the proportion for each respectively? Moreover, which export countries would the Company target? Lastly, what competitive advantage does the Company have against other distributers or manufacturers?

We expect to be mainly fulfilling local demand for PPE at this juncture. Once we have obtained an export license, we aim to also grow our export sales.

Q9. How will foreign exchange movements (e.g. strengthening or weakening of the Malaysian ringgit) impact the contracts with Weihai Textile and Shang Hong?

Our clients, Weihai Textile and Shang Hong pay in US dollars, and the Company has foreign currencies accounts for payments of our foreign purchases or receives of export sales. Hence, we have a natural hedge against the Group's exposure to foreign currency.

Q10. Are Weihai Textile and Shang Hong foreign entities? Does the Company's delivery to them re-exported to their home markets or resold locally?

We have fulfilled the delivery in Malaysia, and we are unable to comment on their onwards sales or use of the products.

Q11. How long would you take to secure the export license?

Typically, we would expect approximately 2 weeks to obtain the export license. However, due to enforcement of the current movement control order in Malaysia, we would expect a longer period may be required.

Q12. How did the Company manage to secure the large PPE contracts without having to first make a contract with the AT Glove Engineering Sdn Bhd?

LKL International is a reputable company with decades of experience and a track record in the healthcare sector. The Company also has a wide network of business partners and associates in Malaysia and overseas.

Q13. How much of the RM43 million purchase of nitrite and latex gloves (approximately 130,000 cartons) is allocated to Weihai Textile and Shang Hong? Have they issued purchase orders? What if they are unable to take up these orders by December 2021?

The actual allocation cannot be determined at this juncture as the rubber gloves will be supplied upon receipt of purchase orders from clients.