



LKL INTERNATIONAL BERHAD (1140005-V)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3RD) QUARTER ENDED 31 JANUARY 2016

A EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORT

A1. Basis of preparation

The interim financial report of LKL International Berhad (“**LKL International**” or “**the Company**”) and its subsidiary (“**the Group**”) are unaudited and have been prepared in accordance with the requirements of MFRS 134 - Interim Financial Reporting issued by the Malaysian Accounting Standard Board (“**MASB**”), paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Securities.

This is the first interim financial report on the combined results for the third (3rd) quarter ended 31 January 2016 announced by the Company in compliance with the Listing Requirements of Bursa Securities and as such, there are no comparative figures for the preceding year’s corresponding period.

The interim financial report should be read in conjunction with the Accountants’ Report as disclosed in the Prospectus of the Company dated 26 April 2016 and the accompanying explanatory notes attached to this interim financial report.

A2. Changes in accounting policies

The significant accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted as disclosed in the Accountants’ Report in the Prospectus of the Company dated 26 April 2016, except for the following as they are not yet effective for the Company’s financial period commencing from 1 May 2015:

MFRSs (Including The Consequential Amendments)	Effective Date
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018
Amendments to MFRS 10 and MFRS 128 (2011): Sales or Contribution of Assets between an investor and its Associate or Joint Venture	Deferred until further notice
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128 (2011): Investment Entities - Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 101: Presentation of Financial Statements - Disclosure Initiative	1 January 2016
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture - Bearer Plants	1 January 2016
Amendments to MFRS 127 (2011): Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements to MFRSs 2012 - 2014 Cycle	1 January 2016

A3. Auditors’ report on preceding audited financial statements

The preceding year’s audited financial statements of the Group were not subject to any qualification.



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A EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORT (CONT’D)

A4. Seasonal or cyclical factors

The Group’s business operations are not materially affected by seasonal or cyclical factors during the current financial quarter under review.

A5. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no material unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and current year-to-date under review.

A6. Material changes in estimates

There were no changes in estimates that have had a material effect in the current financial quarter under review.

A7. Debts and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial quarter and current year-to-date under review, except for the issuance of 500,000 ordinary shares of RM1 each at par value by LKLAM.

A8. Dividend paid

There was no dividend paid during the current financial quarter under review.

A9. Segmental information

(a) Analysis of revenue by product categories

	UNAUDITED INDIVIDUAL QUARTER		UNAUDITED CUMULATIVE QUARTER	
	31 JANUARY 2016 RM’000	31 JANUARY 2015 ⁽¹⁾ RM’000	31 JANUARY 2016 RM’000	31 JANUARY 2015 ⁽¹⁾ RM’000
Manufacturing:				
Medical/healthcare beds	4,349	N/A	10,543	N/A
Medical peripherals and accessories	4,597	N/A	11,612	N/A
	<u>8,946</u>	<u>N/A</u>	<u>22,155</u>	<u>N/A</u>
Trading:				
Medical peripherals and accessories	2,835	N/A	5,683	N/A
	<u>2,835</u>	<u>N/A</u>	<u>5,683</u>	<u>N/A</u>
Total revenue	<u>11,781</u>	<u>N/A</u>	<u>27,838</u>	<u>N/A</u>



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A EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORT (CONT’D)

A9. Segmental information (Cont’d)

(b) Analysis of revenue by geographical areas

	UNAUDITED INDIVIDUAL QUARTER			UNAUDITED CUMULATIVE QUARTER		
	31 JANUARY		31 JANUARY	31 JANUARY		31 JANUARY
	2016	2015 ⁽¹⁾	2016	2016	2015 ⁽¹⁾	
	RM’000	%	RM’000	RM’000	%	RM’000
Local:						
Malaysia	11,372	96.53	N/A	23,355	83.90	N/A
Export:						
Africa	60	0.51	N/A	208	0.75	N/A
Asia - other than Malaysia	270	2.29	N/A	3,566	12.81	N/A
Europe	-	-	N/A	2	0.01	N/A
Middle East	16	0.14	N/A	644	2.31	N/A
Central America	63	0.53	N/A	63	0.22	N/A
	409	3.47	N/A	4,483	16.10	N/A
Total revenue	11,781	100.00	N/A	27,838	100.00	N/A

Notes:

(1) This is the first interim financial report announced in compliance with the Listing Requirements of Bursa Securities. There are no comparative figures for the preceding quarter available as no interim financial report was prepared for the comparative financial period concerned.

* The chief operating decision maker assess the performance of the Group by product categories as stated above.

N/A – Not applicable

A10. Valuation of property, plant and equipment

There was no valuation of the property, plant and equipment in the current financial quarter under review.



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A EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORT (CONT’D)

A11. Material events subsequent to the end of the current financial quarter

Save as disclosed below, there were no other material events subsequent to the end of the current financial quarter that have not been reflected in this interim financial report.

- (a) Pursuant to the sale and purchase agreement dated 13 July 2015, the Company had acquired LKLAM and the acquisition was completed on 10 March 2016. The details of the acquisition are as follows:-

Name of company	Equity	Consideration (RM)	No. of LKL International shares
LKLAM	100%	31,579,990	315,799,900

- (b) On 26 April 2016, LKL International issued its Prospectus and undertook a public issue of 113,000,000 new ordinary shares of RM0.10 each (“**LKL International Shares**”) at an issue price of RM0.20 per LKL International Share (“**IPO Price**”) allocated in the following manner (“**Public Issue**”):-

- (i) 8,000,000 new LKL International Shares made available for application by the Malaysian Public;
- (ii) 13,200,000 new LKL International Shares made available for application by the eligible directors, employees and persons who have contributed to the success of the Group;
- (iii) 42,200,000 new LKL International Shares made available by way of placement to selected investors; and
- (iv) 49,600,000 new LKL International Shares made available by way of placement to Bumiputera investors approved by the Ministry of International Trade and Industry.

The listing of and quotation for the Company’s entire enlarged issued and paid-up share capital of RM42,880,000 comprising 428,800,000 LKL International Shares on the ACE Market of Bursa Securities is expected to be on 16 May 2016.

A12. Changes in composition of the Group

There were no material changes in the composition of the Group for the current financial quarter under review.

A13. Contingent assets or contingent liabilities

The Group has no contingent assets and contingent liabilities as at the date of this report.

A14. Capital commitments

There were no material capital commitments in respect of property, plant and equipment as at the end of the current financial quarter under review.

A15. Related party transactions

During the current financial quarter, the Board of Directors is of the opinion that there were no material related party transactions which would have a significant impact on the financial position and business of the Group.



LKL INTERNATIONAL BERHAD (1140005-V)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3RD) QUARTER ENDED 31 JANUARY 2016

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of performance

For the current financial quarter under review, the Group recorded revenue of RM11.781 million. The Group's revenue was mainly derived from manufacturing of medical/healthcare beds and manufacturing of medical peripherals and accessories sales amounting to RM4.349 million and RM4.597 million respectively. Local market continued to contribute significant portion of revenue amounting to RM11.372 million or 96.53% of the Group's total revenue.

The Group registered a profit before taxation of RM2.994 million for the current financial quarter under review.

There are no comparative figures for the preceding year corresponding quarter's results as this is the first interim financial report being announced by the Company in compliance with the Listing Requirements of Bursa Securities.

B2. Comparison with preceding quarter's results

There are no comparative figures for the preceding quarter's results as this is the first interim financial report being announced by the Company in compliance with the Listing Requirements of Bursa Securities.

B3. Prospects

As disclosed in the Prospectus of the Company dated 26 April 2016, the Group has put in place a series of future plans that are focused in expanding its presence and market share both in the local and export markets as follows:-

- (i) The Group will continue to seek local market opportunities and strengthen its presence in Malaysia;
- (ii) The Group intends to grow its sales in the existing export markets;
- (iii) The Group plans to strengthen its global footprint by progressively expanding to new geographical markets, including both developed countries and emerging economies;
- (iv) The Group aims to acquire new machinery to increase automation in its manufacturing processes; and
- (v) The Group intends to expand its manufacturing plant to facilitate greater automation and increase the storage area.

Barring any unforeseen circumstances, the Board of Directors of the Company is of the opinion that the prospects for the financial year ending 30 April 2016 will remain favourable.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3RD) QUARTER ENDED 31 JANUARY 2016

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B4. Income tax expense

	UNAUDITED INDIVIDUAL QUARTER 31 JANUARY 2016 RM'000	UNAUDITED CUMULATIVE QUARTER 31 JANUARY 2016 RM'000
Current tax expense:-		
- for the financial period	648	1,326
- underprovision in the previous financial year	-	178
	648	1,504
Effective tax rate (%)	21.64	26.70

The effective tax rate for the current financial quarter is lower than the statutory tax rate of 24% mainly due to the applicable tax rate for the Group's subsidiary company, LKLAM which is subject to a tax rate of 19% for its first RM0.5 million of chargeable income and at the tax rate of 24% for its subsequent chargeable income. The higher effective tax rate for the current financial year-to-date was mainly due to underprovision of taxation and listing expenses which is non-deductible expenses for tax.

B5. Variance of actual profit from profit forecast and profit guarantee

The Group has not issued any profit forecast or profit guarantee in any form of public documentation and announcement during the current financial quarter under review.

B6. Status of corporate proposals

Save as disclosed in Note A11, there were no other corporate proposals announced but not completed as at the date of this report.

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LKL INTERNATIONAL BERHAD (1140005-V)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3RD) QUARTER ENDED 31 JANUARY 2016

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B7. Utilisation of proceeds from the Initial Public Offering (“IPO”)

Based on the IPO Price, the gross proceeds arising from the Public Issue amounting to RM22.6 million is intended to be utilised in the following manner:-

Purposes	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation RM'000	Estimated timeframe for utilisation
(a) Capital expenditure	8,500	-	-	Within 18 months
(b) Repayment of bank borrowing	3,995	-	-	Within 12 months
(c) Working capital	7,605	-	-	Within 24 months
(d) Estimated listing expenses	2,500	-	-	Within 3 months
Total	22,600	-	-	

The utilisation of the proceeds as disclosed above should be read in conjunction with the Prospectus of the Company dated 26 April 2016.

As at the date of this report, the IPO is pending completion and hence there was no utilisation of IPO proceeds.

B8. Group’s borrowings and debt securities

The Group’s borrowings as at 31 January 2016 are as follows:-

	UNAUDITED AT 31 JANUARY 2016 RM'000	AUDITED AT 30 APRIL 2015 RM'000
Current:		
Hire purchase payables	195	216
Term loans	652	734
	<u>847</u>	<u>950</u>
Non-current:		
Hire purchase payables	546	491
Term loans	7,779	8,030
	<u>8,325</u>	<u>8,521</u>
Total borrowings:		
Hire purchase payables	741	707
Term loans	8,431	8,764
	<u>9,172</u>	<u>9,471</u>

All the borrowings are secured and denominated in Ringgit Malaysia.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3RD) QUARTER ENDED 31 JANUARY 2016

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B9. Material litigation

Save as disclosed below, there is no litigation or arbitration which has a material effect on the financial position of the Group and the Board of Directors is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings as at the date of this interim financial report.

The Group's subsidiary, LKLAM had on 21 January 2016 issued a notice of outstanding sum to Kluang Health Care Sdn. Bhd. ("KHC") and filed a notice of intention to appear as a supporting creditor in the winding-up petition by Lee Yong Beng (trading as Yong Seng Construction Work) against KHC for a principal sum of RM279,089 as at 24 February 2012 in respect of supply of products. In the event interests and prospective costs are added, the total sum outstanding to LKLAM is likely to exceed RM300,000.

As at the date of this interim financial report, the matter is fixed for case management on 26 May 2016.

B10. Dividend

The Board of Directors does not recommend any dividend for the current financial quarter under review.

B11. Earnings per share ("EPS")

The basic EPS for the current financial quarter and financial year-to-date are computed as follows:-

	UNAUDITED INDIVIDUAL QUARTER 31 JANUARY 2016	UNAUDITED CUMULATIVE QUARTER 31 JANUARY 2016
Net profit attributable to ordinary equity holders of the Company (RM'000)	2,346	4,129
Number of ordinary shares in issue ('000)	2,000	2,000
Basic EPS (sen) ⁽¹⁾	117.30	206.45
Diluted EPS (sen) ⁽²⁾	117.30	206.45

Notes:

(1) Basic EPS is calculated based on the combined share capital of 2,000,100 ordinary shares in issue as at 31 January 2016.

(2) Diluted EPS of the Company for the individual quarter 31 January 2016 and cumulative quarter 31 January 2016 is equivalent to the basic EPS as the Company does not have convertible options at the end of the reporting period.

* **For illustration purposes**, basic EPS for the individual quarter 31 January 2016 and cumulative quarter 31 January 2016 (assuming number of shares in issue of 315,800,000 after the acquisition by LKL International of the entire issued and paid-up share capital of LKLAM but before public issue) is 0.74 sen and 1.31 sen respectively.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3RD) QUARTER ENDED 31 JANUARY 2016

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B12. Notes to the Combined Statements of Profit or Loss and Other Comprehensive Income

Profit before taxation is arrived at after charging/(crediting):-

	UNAUDITED INDIVIDUAL QUARTER 31 JANUARY 2016 RM'000	UNAUDITED CUMULATIVE QUARTER 31 JANUARY 2016 RM'000
Depreciation of property, plant and equipment	286	845
Allowance for impairment losses on trade receivables	1	9
Interest expense	108	375
Interest income	(40)	(40)
Gain on disposal of property, plant and equipment	-	(4)
Realised gain on foreign exchange	(16)	(44)
Unrealised loss/(gain) on foreign exchange	67	(293)
Writeback of allowance for impairment losses on trade receivables	(92)	(112)

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Securities are not applicable.

B13. Disclosure of realised and unrealised profits or losses

The realised and unrealised retained profits of the Group as at 31 January 2016 are analysed as follows:-

	UNAUDITED AT 31 JANUARY 2016 RM'000	AUDITED AT 30 APRIL 2015 RM'000
Retained profits of the Group		
- Realised	34,212	30,325
- Unrealised	(273)	(515)
	<u>33,939</u>	<u>29,810</u>

B14. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 9 May 2016.

BY ORDER OF THE BOARD OF DIRECTORS
9 May 2016