

Operational & Financial Matters

1. Fintec' s cost of sales amounted to RM138.89 million as compared to a revenue of Rm114.42 million in FPE2021.

Question: What does the cost of sales comprise of?

Answer: cost of sale comprise of mainly the cost of marketable securities sold (RM137.64 million) including related charges. Reference: annual report 2021 Page 80, Note 3(a).

2. Referring to the table below, Fintec' s investment in public listed co mainly comprises of loss-making entities.

Investee company	Latest FYE	Revenue (RM' 000)	Net profit/(loss) (RM' 000)
AT Systematization Berhad	31/3/2021	30,928	(20,529)
Focus Dynamics Group Berhad	31/12/2020	66,259	16,611
DGB Asia Berhad	31/12/2020	13,080,	(13,756)
NetX Holdings Berhad	30/11/2020	14,897	(15,871)
Seacera Group Berhad	30/6/2021	4,448	7,084

Question: How does Fintec' s investment in these loss-making PLCs create value to shareholders?

Answer:

Firstly, in our view, profitability should not be the exclusive criterion for investment in PLCs. Secondly, our investments decision has taken into account the business growth and earnings potentials as well as the potential for upside on market valuation which to a certain extent are driven by investors and market sentiment. However, Covid-19 Pandemic has affected market sentiment and companies' performance. We believe improvement in market sentiment should lead to higher valuation of our investments. It should also be noted that the share prices of these companies as at 30 June 2021 are at a discount to their underlying net asset per share value as shown below.

As at 30 June 2021

Investee company	Share price (RM)	Net Asset per share (RM)	Discount
AT Systematization Berhad	0.065	0.088	(26.14%)
DGB Asia Berhad	0.055	0.128	(57.03%)
NetX Holdings Berhad	0.095	0.182	(47.80%)

3. During FPE2021, Fintec had disposed the entire shareholding in Komarkcorp Berhad, Saudee Group Berhad, VSolar Group Berhad and Mlabs Systems Berhad to avert further losses in the event the stock prices continue to soften in the immediate future.

Question: what were the reasons of investing in these companies in the first place?

Answer: The decision to invest in those companies was for earnings/business growth potentials. Hence, we were of the view that there were potential appreciation to the value of these companies.

In addition, we have also taken into consideration the key assets of these companies when decided to invest such as:

Securities' s Name	Key Assets
<i>Komarkcorp Berhad</i>	<i>Land, factory and machinery</i>
<i>Saudee Group Berhad</i>	<i>Plant, machinery, equipment, land and building</i>
<i>VSolar Group Berhad</i>	<i>3 solar plants</i>
<i>Mlabs Systems Berhad</i>	<i>Cash and bank balances</i>

Question: what was the return and tenure of these investment? Please provide the date, cost, and size of investment for each of these stocks?

Answer:

Securities' Name	Tenure	Cost of Investment (RM million)	Average cost of investment per share	The highest share price/date*	Return of investment (RM' million)
<i>Komarkcorp Berhad</i>	<i>1 year (June 2020 to June 2021)</i>	<i>16.35</i>	<i>RM0.22</i>	<i>RM1.30 / 12 November 2020</i>	<i>(6.8)</i>

<i>Saudee Group Berhad</i>	<i>Less than 1 year (August 2020 to June 2021)</i>	<i>12.62</i>	<i>RM0.40</i>	<i>RM1.05 / 19 March 2021</i>	<i>(8.00)</i>
<i>VSolar Group Berhad</i>	<i>More than 5 years (July 2014 to June 2021)</i>	<i>8.08</i>	<i>RM0.06</i>	<i>RM0.09 / 1 July 2020</i>	<i>(6.92)</i>
<i>Mlabs Systems Berhad</i>	<i>Less than 4 years (Sept 2017 to May 2021)</i>	<i>11.27</i>	<i>RM1.50[^]</i>	<i>RM0.28 / 3 November 2020</i>	<i>(10.9)</i>

** The share prices of these companies were higher than our average cost of investment prior to Covid-19 Pandemic.*

[^] Due to share consolidation of every 10 existing Mlabs shares into 1 Consolidated Share.

Question: what was the cause of loss-making investment (if there is)?

Answer: This was due to the low disposal share prices arising from the downtrend of the share prices as a result of negative market sentiment arising from the unprecedented Covid-19 Pandemic. The changes in political landscape has increased the risk of investments in the capital market.

4. The table below showed some investments and divestments made by Fintec during FPE2021:

Company	Date of emergence as a substantial shareholder	Date of cessation as a substantial shareholder
Saudee Group Berhad	10/8/2020	23/6/2021
Komarkcorp Berhad	30/6/2020	22/6/2021

Question: How do the short-term investments mentioned above fulfill Fintec' s long-term investment strategy and business objectives?

Answer: When the Company acquired the above-mentioned listed companies' shares, the investment strategy was to allow Fintec to diversify its portfolio into food-processing industry as well as labelling & packaging industry.

Question: Paragraph 139(1) of the Companies Act 2016 states that a person shall give notice to the company in writing if he ceases to be a substantial shareholder in a company

- In the case of a company whose shares are quoted on a stock exchange, within three days after the person ceased to be a substantial shareholder; or
- In any other case, within five days after the person ceased to be a substantial shareholder.

The notice on Fintec' s cessation of substantial interest in Saudee and Komarkcorp were received by the two companies on 2 August 2021 with announcements made on Bursa Malaysia on 6 August 2021 (Saudee and Komarkcorp' s announcement dated 6 August 2021).

Question: Why did Fintec disclose the cessation of substantial interest in Saudee and Fintec a month later?

Answer: Due to the imposition of MCO 3.0, the submission of statutory documents to CCM was strictly by appointment only. Subsequently, the appointment for submission of the notice of cessation of substantial interest ("Notice") granted to Fintec by CCM only on 3rd August 2021 followed by the announcement to Bursa on the same day.

5. During FPE2021, a total of 1.201 billion shares were exercised under the now expired share issuance scheme (SIS) and employees' share options scheme (ESOS). The total number of shares exercised represented constituted approximately 23% of Fintec' s 5.23 billion total issued shares as of 4 October 2021.

Question: who were the key recipients of the SIS and ESOS shares? How many shares were granted to these key recipients? What is the rationale for granting the SIS and ESOS shares to them?

Answer: the key recipients were eligible employees of the Company who fulfilled the eligibility criteria for the participation in the scheme. As at 30 June 2021, approximately 1.2 billion shares were granted to eligible employees under the SIS and ESOS. The rationale for granting the SIS and ESOS shares to eligible employees are as follows: -

- *To drive and motivate the eligible persons to work towards achieving the Company' s goals and objectives;*
- *To reward the eligible persons in recognition of their accumulated contribution to the operations and continued growth of the Company;*

- *To retain the eligible persons by giving the eligible persons a sense of ownership, loyalty and belonging to the Company by enabling them to participate directly in the equity of the Company and thereby provides an incentive for the eligible persons to participate in the future growth and motivate them towards better performance through greater productivity and loyalty;*
- *To align the interest of the eligible persons, including management personnel of the Company, with the interests of the shareholders of the Company via direct participation in the equity; and*
- *To attract and retain high-calibre eligible persons.*

Question: what was the exercise price of these shares? Please indicate in the form of price range.

Answer: The exercise prices range between RM0.0275 and RM0.0925.

Question: what is the vesting period imposed on the grantees before they could exercise the SIS/ESOS shares granted?

Answer: There was no vesting period imposed under the scheme.

Question: is there a cap on the ESOS entitlement for Fintec' s directors, person connected to director and employees under the existing ESOS?

Answer: Not more than 70% of the total number of shares available under the ESOS will be allocated in aggregate to Executive Director(s) and senior management personnel.

Question: Given Fintec' s large number of issued shares and extremely low share price (1.5 sen as of 17 November 2021), would it be wise for Fintec to continue granting substantial ESOS shares to employees which will erode shareholders' value?

Answer: We note the concern that such issuance of shares will erode shareholders' value and we will in the future try to balance the need to retain shareholders' value and the need to remain liquid.

6. Impairment loss on:

a. Amount due from subsidiaries

In FPE2021, Fintec made an impairment of Rm67.74 million (FY2020:nil) for the amount due from subsidiaries at company level, thus increasing the accumulated impairment amounted to Rm200.13 million (note17-amount due from/to subsidiaries, page 94 of AR2021).

Question: why was the impairment made?

Answer: The impairment arose from assessment on the recoverability of the amount due from subsidiaries so as to comply with accounting standards as recommended by the auditors.

Question: What is the rationale of extending this non-trade unsecured, interest free advances to subsidiaries?

Answer: Fintec Global is primarily a technology incubator with an investment holding company status and all its business activities are undertaken by its subsidiaries. All fund raising exercises are undertaken by the holding company and funds raised are then advanced to the subsidiaries for their capital expenditure as well as working capital needs. There is no financial impact at Fintec' s Group level.

b. Investment in unquoted shares

In FPE2021, Fintec had made an impairment of RM4.86 million for its RM15.63 million new investment in unquoted shares (note18-investment in unquoted shares, page94 of AR21).

Question: why was the impairment made shortly after Fintec invested in these unquoted shares? What were the unlisted entities that Fintec invested in?

Answer: It was not a new investment in the Company. As announced on 18 December 2018, the Company has subscribed RCPS in Pinnacle Nexus Sdn Bhd ("Pinnacle"). On 5 August 2020, 4.8 million ordinary shares of CLI Investment Limited ("CLI"), the owner of Kimpton Daan hotel in Taiwan was transferred to Fintec as a result of the settlement on the litigation proceeding against Pinnacle due to inability of Pinnacle to redeem the RCPS. As the global hospitality industry is severely impacted by the global pandemic and limited tourism activities Kimpton Daan hotel' s business was adversely affected. In order to comply with accounting standards, an impairment of RM4.86 million of CLI' s assets carrying value was made in FPE2021 as recommended by the auditor.

7. The ordinary resolution 6 on notice of AGM dated 29 October 2021 seeks shareholders' approval to empower the company directors issuing and allotting shares of not exceeding 10% of Fintec' s total number of issued shares in general pursuant to Section 75 and 76 of the Companies Act 2016.

Within the past two years, Fintec had already completed several fund-raising exercises to raise funds for working capital and new investments including the glove business.

These fund-raising exercises are:

- Two private placement exercises completed in July 2020 and September 2021 respectively within issuance size of up to 30% and 20% of Fintec' s total number of issued shares respectively.
- A rights issue with warrants completed in December 2020 that comprised of 1.43 billion rights shares and 1.15 billion warrants in Fintec.

Besides, the Company had also implemented a five-year ESOS program of up to 30% of its total number of issued shares in March 2021.

As of 4 October 2021, there were approximately 5.23 billion issued shares in Fintec as compared to approximately 1.34 billion shares on 3 August 2020.

Question: will Fintec utilize the mandate to issue new shares in FY2022?

Answer: It depends on the funding requirements of Fintec' s Group. This mandate is given for the purpose of liquidity as the business operating environment continues to be challenging. Moreover, as Fintec' s core business is in technology incubating, "in times of crisis, there are also great opportunities" , as such, it gives the Company the opportunity to move on high yielding investment proposal, should it arise.

Question: when will Fintec to self-sufficient and able to use its internal generated funds to fund its working capital and new investments, without relying on equity issuance?

Answer: A definitive date cannot be given as this will be based on numerous internal and external factors. However, we note the concern that continuous equity fund raising will erode shareholders' value. Hence, we will take this factor into consideration in the future. We have invested RM114 million in a glove manufacturing facility with the target annual production capacity of approximately 2.0 billion. The global market for Nitrile Gloves is estimated to reach USD57.1 billion by 2026, growing at a CAGR of 23.3% over the analysis period. The company is optimistic that this business will generate positive cashflow to Fintec' s Group.

Question: given the current low interest environment and zero borrowings, will Fintec consider leveraging on loans and borrowings to fund its businesses?

Answer: Fintec will consider leveraging on loans and borrowings to fund its businesses in the event it requires funding. The cost of borrowings is however expected to increase.

Corporate governance matters

1. Based on the Corporate Governance (CG) report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance (MCCG), please provide clarification on the following:

Practice 10.2: the board should disclose-

- Whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- The number of resources in the internal audit department;
- Name and qualification of the person responsible for internal audit; and
- Whether the internal audit function is carried out in accordance with a recognized framework.

MSWG' s comment: The Board did not disclose the name and qualification of the engaging partner, as well as the number of resources to carry out the IA function.

Answer: Name of the Engaging Partner: Edward Yap.

Qualification of the Engaging Partner: Member of Malaysian Institute of Accountants (MIA), member of Institute of Singapore Chartered Accountants (ISCA), Fellow Member of the Association of Certified Chartered Accountants (FCCA) and Chartered Member of the Institute of Internal Auditors Malaysia (CMIIA).

Number of resources to carry out the IA function: 4 persons.

2. Fintec incurred total internal audit (IA) cost of Rm20,000 during FPE2021 with the IA function was outsourced to Wensen Consulting Asia (M) Sdn Bhd.

Question: how many audits were performed by Wensen Consulting Asia (M) Sdn Bhd in FPE2021?

Answer: 2 audits (1. Portfolio Management and 2. Financial Statement Close Processing Management and Review on Delegation of Authority)

Question: How many IA reports were issued during the year?

Answer: 2 reports were issued.

Question: what were the main recommendations, area of improvements and observations raised by Wensen Consulting Asia in FPR2021?

Answer:

i) Portfolio Management

The key finding involved changes on the authority limit on acquisition and disposal of Marketable Securities.

ii) Financial Statement Close Processing Management and Review on Delegation of Authority

Key findings:

- (1) Backup of accounting data at the off-site location*
- (2) Approval process on claims submitted by Senior Management.*
- (3) Approval process on payments.*

Immediate actions have been taken by the Management in implementing the recommended suggestions made by the Internal Auditors, on the abovementioned audit findings.

Question: considering the low IA fee (average RM1,333 per month), how does the Audit Committee assure itself that there would be sufficient resources to ensure adequate coverage and an effective IA function?

Answer: The Audit Committees meet with the Engagement Director and Manager in charge of the Internal Audit review twice a year to review and assess the internal audit work performed to ensure sufficient resources allocated and adequate coverage of Internal Audit Review. The Internal Audit activities are structured and carried out with reference to the key risks of Fintec which enhance the efficacy of Internal Audit Function. Besides, this includes modification of scope for the purpose of addressing new and emerging risks.

3. At the Company level, Fintec had paid RM627,000 salaries and bonus to executive/managing directors.

Question: what is the breakdown of the "Salaries and bonus" to executive/managing directors?

Answer: Salaries: RM542,000 and Bonus: RM85,000.

4. Chapter 9, Paragraph 9.21(2) of the ACE Market Listing Requirements (ACE LR) requires companies to publish a summary of the key matters discussed (KMD) at the AGM onto the Company' s website soon after the conclusion of the general meeting. Failure to publish a summary of KMD of AGM on corporate website is a breach of ACE LR.

As of 19 November 2021, the summaries of KMD at Fintec' s AGM held on 22 August 2019, 30 September 2020 were not available on the Company' s website.

Please upload the summaries of KMD onto your website as soon as possible.

Answer: The KMD has been uploaded onto our website.