

KEY ASIC BERHAD
[200501024949 (707082-M)]
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE SIXTEENTH ANNUAL GENERAL MEETING OF THE COMPANY CONDUCTED ENTIRELY THROUGH LIVE STREAMING FROM THE BROADCAST VENUE AT 6TH FLOOR, UNIT 3, 8, FIRST AVENUE, BANDAR UTAMA, 47800 PETALING JAYA, SELANGOR DARUL EHSAN, ON FRIDAY, 12 NOVEMBER 2021 AT 9.00 A.M.

There were no other matters raised by the shareholders at the Sixteenth Annual General Meeting (“16th AGM”), save for the following:-

Questions and Answers arising from the letter from the Minority Shareholder Watch Group (“MSWG”)

Operational & Financial Matters

Question:

The Group has been incurring losses for the last 3 financial years since 2019. For FY2021, it recorded loss after tax of RM7.95 million attributed mainly to higher expenses (page 10 of Annual Report (“AR”) 2021).

- (a) Is the Group expected to turnaround and register profits in FY2022? What are the strategies and the key drivers to turnaround in 2021 and going forward?
- (b) Administrative expenses have increased by 48% to RM6.13 million in FY2021 (FY2020: RM4.14 million) (page 53 of AR 2021). What are the reasons for the substantial increase in administrative expenses? Please provide a breakdown. What would be the expected level of administrative expenses going forward?

Response:

- (a) The Group does not forecast historically and will make the announcement of financial in accordance to the Listing Rules. The Group has been engaging with potential customers in the fast-growing sectors such as automotive, healthcare and renewable energy. The core competencies of the Group in IoT, IoMT and AI enable the Group to have competitive advantage in digitalization of these industries.
- (b) The increase in administrative expenses is mainly due to ESOS expenses.

Question:

The pandemic lockdown has caused delays in production of chips. Global shortage of production capacity has affected the Group’s revenue despite its strong bookings. The strong demand for all kinds of chips is expected to continue in FY2022. However, the capacity of manufacturing partners is likely to be tight with unpredictable disruptions due to pandemic (page 9 & 11 of AR 2021).

- (a) Please elaborate on the impact of chip shortage on the Group’s prospects.
- (b) Given that microchip or wafer production are outsourced to external parties, what is the Company’s strategy to mitigate and manage the supply chain risks?

Response:

- (a) The shortage of capacity is largely due to the unpredictable closures of the facilities when employees are infected. The global shortage generally is 30%-50% of the demand depending on the periods of the closures. The impact on the Group is similar to the global impact over time.
- (b) The Group will continue to qualify more manufacturing partners.

Question:

The Group has made significant breakthrough in FY2021 in its Internet of Things (“IoT”) and Artificial Intelligence (“AI”) technologies. It has filed several more patents in its leading-edge IoT technologies in the areas of security and this capability is essential, especially in the medical, automotive, renewable energy and public service applications. It will continue to focus on innovation based on IoT and AI technologies (page 7 of AR 2021).

- (a) Please elaborate further on the level of innovation and the level of differentiation of the IoT products/applications and AI system-on-chips it has designed and developed? What are its competitive advantages?
- (b) Internet of Medical Things (“IoMT”) continues to be the focus of the Group in the healthcare sectors (page 10 of AR 2021). When does the Group expect the newly launched IoT products/chips (KeyPATH, SPG 102-V2, MCard2/MDrive2) to start contributing to the Group’s profitability?
- (c) What are the Company’s plan to market these new products overseas? What are the opportunities and challenges in these markets?

Response:

- (a) IoT products/applications that we developed are based on our own IoT chip SGP101 that has been awarded more than 10 patents in US, China, Japan, Korea, Taiwan, Singapore and Malaysia. The IoT products/applications will be announced in due course. The AI SoC has already been implemented into some intelligent systems and it is one of the lowest power but high performance chips.
- (b) 2nd half of calendar year 2022 or early 2023 depending on the approval in area. Approval for medical products would require to be obtained from the relevant authorities such as US Food and Drug Administration and European CE. For selling in each country, approval from the local authority would be required as well.
- (c) We have been marketing our products overseas and the new products will be marketed through the same sales channel. IoMT devices are the next generation of wireless medical devices.

KEY ASIC BERHAD
SUMMARY OF KEY MATTERS DISCUSSED AT THE SIXTEENTH ANNUAL GENERAL MEETING HELD ON
12 NOVEMBER 2021

Question:

The Group's allowance for impairment losses on trade receivables amounting to RM18.96 million represents 96% of the Group's trade receivables of RM19.74 million in FY2021 (Note 9, page 94 of AR 2021).

- (a) What are the profiles of the customers with long outstanding trade receivables? Please include details such as country, amount due, overdue period etc.
- (b) What actions have been taken to recover the said amount?
- (c) What percentage of these impairments are expected to be non-recoverable?
- (d) To-date, how much of these impaired trade receivables have been recovered?

Response:

- (a) Amount due less than 120 days : RM0.5million
Amount due more than 120 days : RM19million
- (b) We continuously work with the customer on the collection.
- (c) As of now, we expect most if not all impairments to be recoverable.
- (d) None of the RM18.96 million impaired trade receivables have been recovered to date.

Question:

Write down of inventories amounted to RM82,261 in FY2021 (FY2020: RM59,306) (Page 57 of AR 2021).

- (a) What are the type of inventories that have been written down in FY2021?
- (b) What factors had triggered the need to write down the value of the inventories?
- (c) With the prolonged pandemic which may impact the saleability of inventories, are further write down of inventories expected in FY2022?

Response:

- (a) Raw material, and work in progress
- (b) Based on IAS 2, inventories should be measured at the lower of cost and net realisable value (IAS 2.9). Net realisable value ('NRV') is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale (IAS 2.6).
- (c) We do not forecast the future to the public historically.

Corporate Governance Matters

Question:

Practice 7.1 of the Malaysian Code on Corporate Governance advocates the detailed disclosure, on named basis, of the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments. The Company has stated in page 26 of its CG Report 2021 that it has applied this Practice whereby the remuneration of directors is disclosed based on a named basis, but no disclosure was made for each component of the remuneration (e.g. fees, salary, bonus, benefits in-kind and other emoluments) for each director. Hence, the Company has not applied this Practice.

This departure is also in breach of Appendix 9C, Part A (11) of the Main Market Listing Requirements (“MMLR”). The breach of this rule may result in sanction from Bursa Malaysia. When does the Board plan to adopt this Practice?

Response:

The disclosure of Directors’ remuneration was made on a named basis in the Corporate Governance Report 2021. The Directors’ remuneration for financial year 2021 consists only of Directors’ fees for all Independent Non-Executive Directors and salary for the Chief Executive Officer. There were no other components of Directors’ remuneration in respect of the financial year 2021.

Question:

Paragraph 9.21(2) of the MMLR requires companies to publish a summary of the key matters discussed at the AGM onto the Company’s website soon after the conclusion of the AGM. As of 2 November 2021, summary of the key matters discussed at the 15th AGM held on 17 November 2020 was not available on the Company website under the section, Investor Relations. Why was the summary of the key matters discussed not uploaded onto the corporate website?

Response:

It has been uploaded.

Question:

The total fee for the internal audit function of the Group during the financial year ended 31 May 2021 was RM16,000 (page 13 of AR 2021).

- (a) Given that the fee is rather small (approximately RM1,333 per month), how does the Audit Committee assure itself that there would be adequate coverage and an effective audit function?
- (b) Audit Committee reviewed and discussed with the Internal Auditor, the Internal Audit Report and Internal Audit Follow-up Report on Research and Development (R&D) of Information and Technology (IT) Department, system of internal control of the Human Resource Department and the follow up Internal Audit Issues of the Human Resource Department and Procurement Department, including the management action plans based on the recommendation highlighted by the Internal Auditor (page 13 of AR 2021).

What were the key findings by the Internal Auditor?

Response:

- (a) The activity of the Group is not voluminous and the Company has good practice of Standard Operation Procedure. The Audit Committee is in opinion that it is sufficient to carry out internal audit once half yearly. From time to time, the Audit Committee will assess the need to increase the frequency and areas to be covered by the Internal Audit.
- (b) In the opinion of the Internal Auditor, there was no major findings and no element of fraud detected.

Other Questions raised by the Shareholders during the 16th AGM

Question:

What is the Company's future outlook?

Response:

The Board views the future outlook of the Group as positive. The Group had invested funds in developing the necessary technologies for the market such as Internet of Medical Things (IoMT), Internet of Things (IoT) and Artificial Intelligence (AI) technologies. Although the Group had been receiving orders, the COVID-19 pandemic and the global lockdown had caused unpredictable shut down of customers' operations and factories. With the current ease of COVID-19 restrictions in many countries including Malaysia, the Board hopes that this would lessen the impact of pandemic on the Group. The Board also foresees the production capacity and the availability to deliver chips would recover to normal level over the next year. Nevertheless, the pandemic is still unpredictable in the future.

Question:

How much is the impact due to Movement Control Order?

Response:

The Group had been impacted by the pandemic lockdown globally other than in Malaysia especially for the on-going negotiations where the Group would need to take a longer time to complete the deals.

Question:

How much is cost saving of this virtual AGM as compare to physical one?

Response:

The cost saving is about RM5,000 for conducting the AGM virtually as compared with physical AGM. The virtual AGM is handled by the Company's own IT team and the cost would be lower compared with virtual meeting done by third party.

Question:

Will the Board consider giving door gift such as e-voucher or e-wallets for those participated in this AGM?

Response:

The Board would consider the shareholder's request on door gifts for the next AGM.