

28 August 2024

Badan Pengawas Pemegang Saham Minoriti Berhad
Level 23, Unit 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

BY FAX/EMAIL

Attn: Dr. Ismet Yusoff

Dear Sir,

RE: EXTRAORDINARY GENERAL MEETING (EGM) OF KUMPULAN FIMA BERHAD (KFIMA)

We refer to your letter dated 21 August 2024 and append herewith our clarification on the following points and queries raised in your letter as follows:

1. **Q.** *The proposed Long Term Incentive Plan (LTIP) that comprises of proposed Executive Share Option Scheme (ESOS) and Employees' Share Grant Plan (ESGP).*

The proposed LTIP serves to attract, retain, motivate, and reward Eligible persons through the award of ESOS Options with rights to subscribe Kumpulan Fima (KFima) Shares and the award of KFima Shares.

The proposed ESOS is also extended to the non-executive directors of the listed entity(ies) within the Group to recognise their contribution to the Group's growth and performance and enable them to participate in its future growth.

MSWG has no objection to the proposed ESOS and ESGP for the executive directors of the Company and the Group, as ESOS and ESGP serve to attract, retain, motivate, and reward executive directors.

The other directors of the Company, which include the Independent Non-Executive Chairman and Independent Non-Executive Directors, are to be remunerated by fees and allowances and not ESOS and ESGP. Their remunerations should not be based on the profit and performance of the Group. The award of ESOS and ESGP to independent directors should not be encouraged to ensure their independence and objectivity in performing their check and balance role. The nature and structure of the remuneration may cause a potential conflict of interest or where the objectivity or independence of the Board could be impaired.

Similarly, the proposed allocation of ESOS and ESGP to non-independent non-executive directors should not be encouraged as they are not responsible for the group's profit and performance.

Given the above, MSWG does not support the proposed resolutions to allocate ESOS and ESGP to independent and non-independent non-executive directors.

- A.** As stated in Section 2.2 of the Circular, the award of ESGP Shares is only to the Senior Management Personnel, consisting of the Group Managing Director and senior management personnel having the designation of General Manager and above in the Group.

As set out in Section 3 of the Circular, the Proposed ESOS primarily serves to align the interests of the Eligible Persons, including the Non-Executive Directors, with the corporate goals of the Group and to help achieve, among others, the following positive objectives:

- (i) to recognize the Non-Executive Directors' active participation and contribution towards the Group where they provide valuable views and constructive inputs based on their relevant experience and knowledge during the board meetings and deliberation on various matters such as the Group's financial performance; and
- (ii) to align their interests with those of the shareholders as they play a crucial role in providing independent oversight and guiding the Company, hence the ESOS Options are expected to motivate the Non-Executive Directors to be more invested in the Company's long-term and sustainable success, instead of focusing on short-term goals.

The Board is also of the view that the Proposed ESOS will not cause a potential conflict of interest or impair the objectivity or independence of the Non-Executive Directors as the ESOS Options are meant to align their interests with those of the Company's shareholders for the long term.

In accordance with Paragraph 8.20 of the Listing Requirements, an ESOS Participant who is a non-executive director, must not sell, transfer or assign the KFima Shares obtained through the exercise of the ESOS Options awarded to him/her within 1 year from the date of such awards.

Further, unlike the ESGP Awards, the ESOS Awards require the Non-Executive Directors to subscribe and pay for the KFima Shares upon exercise of his/her ESOS Options at the ESOS Exercise Price, which will be at a discount of not more than 10% to the 5-day VWAP of KFima Shares immediately preceding the date of the respective awards.

2. **Q.** *What is the maximum number of ESOS and ESGP to be allocated to Independent Non-Executive Chairman, Non-Independent Non-Executive Directors and Independent Non-Executive Directors, respectively?*

For better clarity, it is good that the proposed ESOS and ESGP should be separately disclosed to each director to enable the shareholders to make informed decisions.

- A.** As stated in Section 2.2 of the Circular, the award of ESGP Shares is only to the Senior Management Personnel and as such, the Non-Executive Directors are only eligible for the ESOS Options under the Proposed ESOS.

The maximum number of ESOS Options to be allocated and granted to the Non-Executive Directors under the Scheme is yet to be determined by the NRC at this current juncture, as the NRC has yet to finalize its deliberations and make a conclusive decision regarding the allocation to the respective Non-Executive Directors.

Notwithstanding, the maximum number of ESOS Options to be granted to a Non-Executive Director under the Proposed LTIP at any point of time in each LTIP Award shall be at the sole and absolute discretion of the NRC, provided always that it is in accordance with the Listing Requirements or any prevailing guidelines issued by Bursa Securities or any other relevant authorities as amended from time to time.

3. **Q.** *Does the draft Bylaws for the Proposed LTIP have a clawback clause for the ESGP from the directors if the Company's performance deteriorates after granting the ESGP? If not, why?*

A. As set out in Section 2.3(iii) of the Circular and as stipulated in the By-Laws 4.1, the ESGP Awards may require the performance targets to be met by the Senior Management Personnel, comprising our Group Managing Director and senior management personnel having the designation of General Manager and above, prior to the vesting of the ESGP Awards. The performance targets comprise key performance indicators to be measured against the individual performance of the ESGP Participants and/or the Group as well as the performance of their respective business units within the Group, as may be determined by the Company from time to time.

Further, pursuant to the draft By-Law 4.3, the NRC shall have the discretion to determine whether any vesting condition has been satisfied (whether fully or partially) or exceeded and in making any such determination, and further to amend any Vesting Conditions if the NRC decides that a changed performance target would be a fairer measure of performance.

Accordingly, the Board is of the view that the clawback clause is not necessary as the Senior Management Personnel may be required to fulfil the Vesting Conditions before the ESGP Award(s) is capable of being vested onto the Senior Management Personnel pursuant to the By-Laws.

4. **Q.** *How does the Company plan to grant the ESOS and ESGP to the directors? Is it on a stagger basis or a one-time allocation? A staggered allocation of ESGP will motivate the executive directors to align with the Company's financial performance.*

A. As set out in Section 2.3(ii) of the Circular, the NRC may at its sole and absolute discretion determine, prior to the LTIP Award(s), whether the LTIP Award(s) to the Eligible Person(s) will be made on staggered basis over the duration of the Proposed LTIP or in a single award and/or whether the LTIP Award(s) are subject to any vesting period and if so, to determine the Vesting Conditions.

The NRC takes cognizant that staggered allocation of the LTIP Awards(s) will motivate the Executive Directors to align with the Group's financial performance.

The above points raised and its related responses will be presented at the forthcoming EGM.

Thank you.

Yours faithfully,
KUMPULAN FIMA BERHAD



FADZIL BIN AZAHA
Chief Financial Officer/Company Secretary