

SCICOM (MSC) BERHAD (597426-H)
(Incorporated in Malaysia)

NOTES IN RESPECT OF THE QUESTIONS AND ANSWERS (“Q&A”) SESSION DURING THE SIXTEENTH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT BANYAN & CASUARINA, GROUND FLOOR, SIME DARBY CONVENTION CENTRE, 1A JALAN BUKIT KIARA 1, 60000 KUALA LUMPUR, ON THURSDAY, 22 NOVEMBER 2018 AT 10.00 A.M.

Agenda No. 1 (Audited Financial Statement and the Reports of Directors and Auditors thereon)

Shareholder Q: i. Good morning Directors, looking at Scicom (MSC) Berhad’s (“Scicom” or “the Company”) performance for the financial year ended 30 June 2018, the revenue and profit have gone down. I’m surprised by this as Scicom is a good company with a healthy balance sheet, no borrowing and a positive cash flow. I hope the Company can maintain its track record.

Scicom has two main business segments – business process outsourcing (“BPO”) and education. Although the education segment is small, it is still making losses. What is the outlook for the business for the next half year? Is its function to support BPO?

ii. What is the business outlook for 2019, assuming everything else remains equal? Like what the chief executive officer (“CEO”) has presented on the financial performance of Scicom Group, the number of customers has increased but transactions have decreased. With the new government in place, there may be lots of hindrances to business. Will this further adversely affect Scicom’s business?

iii. 58% of Scicom’s revenue comes from two main customers. Are they related to Scicom?

iv. Scicom’s business is related to information technology (“IT”), a fast-changing industry. Where and how do you acquire your new technology?

Chairman A: i. Thank you for your questions. The education segment is mainly catered for the in-house training of our 1700 staff. We also utilise our facilities to train outsiders. We prefer our staff to be trained in-house instead of relying on external trainers. For most companies, when their budget is restricted, they will cut on the training cost. Scicom, continually provides training for its staff. We also provide certified training for the English language.

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- Chairman A: ii. The Board is not allowed to provide forecast for the 2019 financial results. Nevertheless, based on the lead time for jobs undertaken for the following three and six months, we are optimistic that Scicom will perform as well in 2019 as in 2018, if not, even better.
- iii. We are aware of the client concentration risk. Scicom is slightly better than before. The two main clients of Scicom are neither related to Scicom, nor to each other; they carry different risks and profiles. We have not lost clients due to non-performance but due to their own loss of customer base. We are confident that these two main clients will remain with us. It is likely that the concentration risk will reduce as we are expecting more new clients. We expect to hire a few hundred more staff early next year.
- iv. Yes, we rely on IT in the delivery of our services to provide satisfactory customer services. We are always trying to improve customer experience, such as response time to client and introducing new methods in the industry. The most important issues are quick response time and satisfactory answers to customers' questions.
- CEO A: We have also created a chat box for customers to receive automated responses via the artificial intelligence ("AI") system. Scicom has not only invested in huge human capital, but in technologies as well.
- We do not outsource our IT. The Company leverages on internal resources. As a solutions company, we look into processes and develop our own intellectual property.
- Shareholder Q: What are your competitive advantages and how do you plan to stay ahead of your competitors?
- Chairman A: Scicom has 1700 staff of different nationalities, and provides outsourcing services in more than 30 languages. We have the competitive edge compared with other service providers, such as those from the Philippines as they do not provide such language support. We have the skills and our staff are from a diverse culture.
- Shareholder Q: Mr Chairman, you mentioned that Scicom has 1700 staff, but the annual report states 2000 staff.
- Chairman A: The 1700 staff are from Malaysia, and do not include around 300 staff from the Sri Lankan operations.

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Shareholder Q: How many competitors does Scicom have in Malaysia? What is Scicom's market share? Is Scicom the largest?

CEO A: We have five to six competitors in Malaysia.

Chairman A: In terms of market share, we take the BPO business as an example. There are a lot of smaller competitors with around 15 staff, and multinational companies with huge in-house BPO operations for their large customer base. The computation of real market share should then be based on total business outsourced.

If we look at outsourcing companies, we are the largest in Malaysia. We focus on customer service and inbound calls, unlike a lot of outsourcing companies that do outbound calls.

Shareholder Q: i. After the change in government, companies like MyEG Services Sdn Bhd and Datasonic Group Bhd have been affected by the changes in the new Government. How do you see Scicom under the administration of the new government? Do you have good relations with the new government?

ii. Is the trade war between China and the US hurting Scicom in any way?

iii. Is the strong US dollar against Ringgit Malaysia benefiting Scicom?

CEO A: i. We take the high moral ground and ensure our business is conducted legally.

Chairman A: i. The Company is not being investigated by the Malaysian Anti-corruption Commission (MACC).

ii. No, Scicom's business is not directly affected by the relationship between China and the US.

iii. It should benefit Scicom. Our services will become cheaper for clients. We price our services based on Ringgit Malaysia, and bill clients in USD accordingly.

Shareholder Q: How many countries is Scicom servicing? I thought there are a lot of business opportunities in Indonesia?

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Chairman A: We are in Malaysia and Sri Lanka. We operate in a digital economy, so our business is no longer location specific.

Yes, agreed. We have tried to do business in Indonesia for four years. The locals have different business ethics; they tend to engage external service providers and then adopt the function in-house after their operations become organised. Scicom is better off doing business in Sri Lanka.

Shareholder Q: What is Scicom's working relationship with Adobe? Do they provide technical expertise, especially in digital marketing?

Chairman A: We have entered into a partnership agreement with Adobe as they have a unique digital marketing platform, which Scicom has bought to service specific clients. The platform is widely used, such as by the UK tourism board, in the US and Singapore.

Proxy Q: Based on page 33 of the annual report, Scicom group's revenue rose from RM160 million in 2014, RM176 million in 2015, to RM196 million in 2016. The revenue growth was stagnant at RM199 million in 2017, and decreased to RM162 million in 2018.

Scicom used to be a high growth company. Scicom's performance result has been stagnant from financial year ended 30 June 2016 to 30 June 2017, and shows a decline for the financial year ended 30 June 2018.

Is this a lifecycle issue, with the Company on the declining stage? The profits and earnings have declined. What is the Board's plan to turn around the Company for sustainable growth?

Chairman A: The financial result for the final quarter is normally better. With the new government, students are not sure about studying in Malaysia and this has affected the college applications. The education business should recover once the political situation in Malaysia is stable.

Scicom has performed well; our efficiency has reduced reliance on manpower from 700 staff to 300 staff. Scicom is billing by headcount and clients enjoy the same level of service at a lower rate. Even though there is a reduced billable headcount, Scicom can gain income via new referred jobs.

As a service provider for 16 years, we prioritise customer loyalty. Based on the jobs in lead time, we are confident that the Company will continue to do well.

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Shareholder Q: Page 33 of the annual report shows that 70% tax exemption on its statutory income is from outsourcing services for the period from 1 July 2017 to 6 November 2017.

Chairman A: Scicom has been granted five-year customised incentive three times, which totals 15 years. Under the final five-year incentive period from 7 November 2012 to 6 November 2017, Scicom was granted a 100% tax exemption on outsourcing income.

In August 2016, the tax exemption from 7 November 2015 to 6 November 2017 was revised and reduced to 70%. Following this, Scicom has been paying full taxes.

Scicom has a subsidiary named Scicom E Solutions Sdn Bhd, which has been granted pioneer status and will be entitled to 100% tax exemption.

Shareholder Q: i. Based on the segmental reporting of the annual report, Scicom has two primary business streams, i.e. BPO and education solutions. However, based on the CEO's presentation, the e-government and digital solutions were highlighted as different business segments. Why did the CEO report in the manner of three to four business segments?

ii. The education segment is an area the Company can develop. Is the Company treating the education segment as a cost centre or profit-making centre? The Company can look into external business opportunities, such as providing vocational and diploma programmes.

iii. Based on page 99 of the annual report, trade and other payables increased from RM9.1 million in 2017 to RM11.4 million in 2018. Page 157 of the annual report discloses that other payables increased by RM5 million. Can you explain the huge increase in other payables?

iv. Can you explain the non-cancellable operating lease commitments? Is it an old or new lease?

Chairman A: i. Regardless of the classification of business segments, the focus is on managing the business operations. Currently, we have several businesses under BPO. If any of the businesses is significant enough, we will categorise it under the new classification in the segmental reporting.

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In the early years, one of our clients, Nokia, calculated the income we made from them based on the disclosures in the annual report. Therefore, the manner of disclosures in the annual report should be within reasons.

ii. Thank you for your opinion.

CEO A: iii. We have a payment gateway for our e-solution business, which collects money. The principal has to invoice Scicom in order to receive its share of the payment, which shall remain as other payables for the time being.

iv. This is attributed to the tenancy agreement in Sri Lanka.

Shareholder Q: In relation to the announcement made on the writ of summons and statement of claim filed against the Company, did the lawyer ensured that the novation agreement is in order?

CEO A: Scicom novated the agreement with the plaintiff, Tawasol Al-Sharq Marketing Services to Nokia Private Limited (“Nokia”) on 7 July 2011. Scicom has stopped receiving services from the plaintiff and stopped billing Nokia. The claim filed by the plaintiff was for invoices dated between 31 August 2011 and 31 December 2013.