

10. RELATED PARTY TRANSACTIONS

10.1 OUR GROUP'S RELATED PARTY TRANSACTIONS

10.1.1 Related party transactions

Under the Listing Requirements, a “**related party transaction**” is a transaction entered into by a listed issuer or its subsidiaries that involves the interest, direct or indirect, of a related party. A “**related party**” of a listed issuer is:

- (i) a director, having the meaning given in subsection 2(1) of the CMSA, and includes any person who is or was within the preceding six months of the date in which the terms of the transaction were agreed upon, a director of the listed issuer, its subsidiary or holding company or a chief executive of the listed issuer, its subsidiary or holding company; or
- (ii) a major shareholder, and includes any person who is or was within the preceding six months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed issuer or its subsidiaries or holding company, and has or had an interest or interests in one or more voting shares in a corporation and the number or aggregate number of those shares, is:
 - (a) 10.0% or more of all the voting shares in the corporation; or
 - (b) 5.0% or more of all the voting shares in the corporation where such person is the largest shareholder of the corporation; or
- (iii) a person connected with such director or major shareholder.

10.1.2 Material related party transactions

Save as disclosed below, there are no other material related party transactions entered into by our Group which involves the interest, direct or indirect, of our Directors, major shareholders and/or persons connected with them for the past three FYEs 31 December 2018, 31 December 2019, 31 December 2020 and up to the LPD:

- (i) Creador, being a person connected to our directors, Loh Kok Leong and Wong Pau Min, provided certain support services to CTOS Data Systems pursuant to the Expense Reimbursement Agreement comprising the following:
 - (a) advice and counsel in connection with the financial management, and administrative and operating activities of CTOS Data Systems;
 - (b) identifying potential value enhancement opportunities and developing value enhancement plan for CTOS Data Systems;
 - (c) identifying strategic opportunities including strategic alliances, joint ventures and acquisitions;
 - (d) providing execution support to CTOS Data Systems' management team; and
 - (e) providing ad hoc support when required.

The services were provided in exchange for all reasonable out-of-pocket expenses incurred by Creador in connection with the assistance rendered under the Expense Reimbursement Agreement including but not limited to travel, lodging, entertainment and other business expenses, compensation for employees designated or allocated to provide such assistance as well as other general out-of-pocket expenses including external consultants engaged by Creador.

10. RELATED PARTY TRANSACTIONS (Cont'd)

The amount incurred by our Group in respect of the services for the FYE 31 December 2018 was RM2,043,000 which represents 4.7%* of our Group's purchases for the FYE 31 December 2018 but there were no amounts incurred by our Group for the FYEs 31 December 2019 and 31 December 2020 in respect of the Expense Reimbursement Agreement. The provision of the abovementioned services by Creador were regarded as a material related party transaction upon aggregation with the services provided by Credisense (as described in item (ii) below).

We were unable to ascertain whether the said transaction has been carried out on an arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to third parties and are not detrimental to our non-interested shareholders due to the following reasons:

- (a) the specific nature and varied scope of the services provided under the Expense Reimbursement Agreement do not facilitate direct comparison to other third-party contracts in our Group; and
- (b) the payments made to Creador are essentially reimbursements which have been incurred by Creador for (i) the deployment of personnel and engagement of an external consultant by Creador to provide services to CTOS Data Systems, which is akin to payment of employee salaries by CTOS Data Systems; and (ii) reimbursement of other out-of-pocket expenses incurred by such personnel.

Our Directors are of the view that the charges by Creador for the services are fair to our Company due to the following reasons:

- (a) the support and assistance rendered by Creador have been instrumental in propelling the growth and expansion of our Group; and
- (b) the management of CTOS Data Systems was able to leverage on the experience, expertise and resources of Creador.

Accordingly, our Directors are also of the view that the Expense Reimbursement Agreement was not detrimental to us.

The Expense Reimbursement Agreement was mutually terminated on 31 December 2020 given that our key senior management gradually became more established and has been able to grow and operate our Company more independently since 2019 without having to rely on support from Creador on strategic and operational matters.

Note:

* Purchases comprise cost of sales, administrative expenses and property, plant and equipment additions and excludes staff costs, depreciation and amortisation, reversal of /(allowance for) impairment of trade receivables, gain/loss on disposal of property, plant and equipment, bad debts, unrealised (gain)/loss on foreign exchange, rental of buildings, sales commission and incentives.

- (ii) Credisense, being a person connected to our substantial shareholder, Inodes, is principally engaged in software development. Credisense has been providing services to CTOS Data Systems pursuant to a master software licence and service agreement dated 8 June 2018 comprising software, consultancy, training, maintenance and support ("**Credisense Agreement**"). Credisense developed the entire software for CAD which allows for automated credit assessment and enabled customers to customise the platform on their own. Its sole customer in Malaysia is CTOS Data Systems.

10. RELATED PARTY TRANSACTIONS (Cont'd)

Pursuant to the Credisense Agreement, the project cost payable to Credisense for the set-up of CAD for CTOS Data Systems' subscribers will be based on a standard support rate of New Zealand Dollar 1,000 per man-day or New Zealand Dollar 200 per man-hour, unless otherwise specified. In addition, 50% of the CAD usage charges collected by CTOS Data Systems from its subscribers will be paid to Credisense. The Credisense Agreement shall be valid until 7 June 2023 and not later than six months prior to such expiry date, the parties will enter into a discussion for the renewal of such agreement for a term to be determined by the parties.

The amount incurred by our Group in respect of the services provided by Credisense for the past three FYEs 31 December 2018, 31 December 2019, 31 December 2020 and up to the LPD are as follows:

	FYE 31 December 2018	FYE 31 December 2019	FYE 31 December 2020	From 1 January 2021 up to the LPD
	RM'000	RM'000	RM'000	RM'000
Charges paid to Credisense	(1)350	(2)920	(3)1,096	116

Notes:

- (1) Represents 0.8% of our Group's purchases for the FYE 31 December 2018.
- (2) Represents 2.2% of our Group's purchases for the FYE 31 December 2019.
- (3) Represents 2.4% of our Group's purchases for the FYE 31 December 2020.

The provision of the abovementioned services by Credisense was regarded as a material related party transaction upon aggregation with the services provided by Creador.

Our Directors confirm that these services were carried out on an arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to third parties and are not detrimental to our non-interested shareholders.

Our Directors also confirm that there are no other material related party transactions that have been entered by our Group that involve the interest, direct or indirect, of our Directors, major shareholders and/or persons connected with them but not yet effected up to the date of this Prospectus.

After our Listing, we will be required to seek our shareholders' approval each time we enter into a material related party transaction in accordance with the Listing Requirements. However, if such related party transactions can be deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions without having to seek separate shareholders' approval each time we wish to enter into such recurrent related party transactions during the validity period of the mandate.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Committee will, among others, supervise and monitor any recurrent related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosure in our annual report with regard to any recurrent related party transaction entered into by us.

10. RELATED PARTY TRANSACTIONS (Cont'd)

10.1.3 Related party transactions entered into that are unusual in their nature or conditions

There are no related party transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets to which we were a party in respect of the past three FYEs 31 December 2018, 31 December 2019, 31 December 2020 and up to the LPD.

10.1.4 Outstanding loans and/or financial assistance made to or for the benefit of related parties

There are no outstanding loans and/or financial assistance made by our Group (including guarantees of any kind) to or for the benefit of any related party in respect of the past three FYEs 31 December 2018, 31 December 2019, 31 December 2020 and up to the LPD.

10.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS**10.2.1 Audit and Risk Committee review**

The Audit and Risk Committee reviews related party transactions and conflicts of interest situations that may arise within our Company or our Group. The Audit and Risk Committee also reviews any transaction, procedure or course of conduct that raises questions of management integrity, including our related party transactions. In reviewing the related party transactions, the following, among others, will be considered:

- (i) the rationale and the cost/benefit to our Company is first considered;
- (ii) where possible, comparative quotes will be taken into consideration;
- (iii) that the transactions are based on normal commercial terms and not more favourable to the related parties than those generally available to third parties dealing on an arm's length basis; and
- (iv) that the transactions are not detrimental to our Company's minority shareholders.

All reviews by the Audit and Risk Committee are reported to our Board for its further action.

10.2.2 Our Group's policy on related party transactions

Related party transactions by their very nature, involve conflicts of interest between our Group and the related parties with whom our Group has entered into such transactions. Some of the officers and the directors of our Group are also officers, directors and in some cases, shareholders of the related parties of our Group, as disclosed in this Prospectus and, with respect to these related party transactions, may individually and in aggregate have conflicts of interest. It is the policy of our Group that all related party transactions are carried out on normal commercial terms which are not more favourable to the related parties than those generally available to the public dealing at arm's length with our Group and are not to the detriment of our minority shareholders.

10. RELATED PARTY TRANSACTIONS *(Cont'd)*

In addition, we plan to adopt a comprehensive corporate governance framework that meets best practice principles to mitigate any potential conflict of interest situations and intend for the framework to be guided by the Listing Requirements and the MCCG upon our Listing. The procedures which may form part of the framework including, among others, the following:

- (i) our Board shall ensure that majority of our Board members are independent directors and will undertake an annual assessment of our Independent Directors;
- (ii) our Directors will be required to declare any direct or indirect interest that they may have in any business enterprise that is engaged in or proposed to be engaged in a transaction with our Group, whether or not they believe it is a material transaction. Upon such disclosure, the interested Director shall be required to abstain from deliberation and voting on any resolution related to the related party transaction; and
- (iii) all existing or potential related party transactions would have to be disclosed by the interested party for management reporting. Our management will propose the transactions to our Audit and Risk Committee for evaluation and assessment who would in turn, make a recommendation to our Board.