PCCS GROUP BERHAD

Company No. 199301026191 (280929-K)

23 August 2023 **BY EMAIL/POST**

Devanesan Evanson
Chief Executive Officer
MINORITY SHAREHOLDERS WATCH GROUP
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Dear Devanesan Evanson,

Re: 29th Annual General Meeting (AGM) of PCCS Group Berhad ("PCCS" or "the Group") to be held on Monday, 28th August 2023

On behalf of the Board of Directors, we thank you for and hereby respond to your letter dated 18 August 2023.

Operational & Financial Matters

1. The era of windfall profits from the Apparel Division is coming to an end due to intensified competition, which has led to a decrease in prices. Additionally, there are rising labor costs associated with this trend (page 30 of Annual Report (AR) 2023).

Despite heightened competition and evolving market dynamics, does the Group continue to hold a positive outlook on the potential of the Apparel Division? If yes, how do you plan to strategize to enhance profitability in the upcoming years?

Despite these challenges, we remain optimistic about the potential of our Apparel Division. We believe that by adapting to evolving market dynamics and implementing strategic measures, we can enhance profitability in the upcoming year.

To achieve this, we have outlined several key areas of focus:

1. Differentiation: We plan to invest in research and development to create unique products that stand out from competitors. By offering innovative designs or incorporating sustainable materials, we aim to attract customers who value quality and ethical practices.

2. Cost optimization: Given the escalating labor costs, it is imperative for us to streamline operations and enhance efficiency across the entire supply chain. This may entail exploring automation technologies, such as our advanced hanging system implemented in most of our production floors, or optimizing production processes through enhanced industrial engineering. Additionally, we have adopted a customized Enterprise Resource Planning (ERP) system that is up to date while ensuring product quality remains uncompromised. The management will also prioritize monitoring the ratio of employees with access to sewers compared to those who are non-sewers as well as optimize land utilization at the Shandong factory in order to improve operating profit ratios.

3. Market expansion: While competition has increased domestically, there are still opportunities for growth internationally. We will explore new markets where demand for apparel is growing rapidly or where our brand has untapped potential.

4. Customer-centric approach: Understanding customer preferences and trends is vital in a competitive landscape. Through market research and data analysis, we will strive to accurately anticipate consumer needs and tailor our offerings accordingly.

5. Marketing strategies: In order to maintain a strong market presence amidst intensified competition, we will develop comprehensive marketing campaigns that effectively highlight our unique selling points and reach target audiences through various channels, including social media platforms and collaborations with influential individuals. Furthermore, the group's future growth and diversification in the apparels business will be further enhanced through strengthened collaboration with local brands in China. This is because our current production capacity in Cambodia primarily caters to international orders, while China's production capacity can be more strategically focused on meeting domestic demand within the country.

By adopting these strategies along with continuous monitoring of market trends, consumer behavior patterns, and competitor analysis, businesses can stay ahead in the ever-evolving marketplace.

One important aspect to consider is staying updated on market trends. This involves keeping a close eye on emerging technologies, industry developments, and changing customer preferences. By understanding these trends, companies can adapt their products or services accordingly and ensure they remain relevant to their target audience.

Additionally, monitoring consumer behavior patterns is crucial for businesses looking to meet the needs and expectations of their customers. This includes analyzing purchasing habits, preferences, and feedback from consumers. By gaining insights into what drives consumer decision-making processes, companies can tailor their marketing strategies and product offerings to better resonate with their target market.

Furthermore, conducting regular competitor analysis allows businesses to identify potential threats as well as opportunities within the market. By studying competitors' strengths and weaknesses in terms of pricing strategies, product quality or innovation efforts among others; companies can position themselves strategically by differentiating themselves from competitors or even learning from successful practices implemented by rivals.

Moreover, continuous monitoring enables businesses to make timely adjustments based on real-time data rather than relying solely on assumptions or outdated information. It helps them identify any gaps in the market that could be exploited for growth opportunities while also allowing them to address any issues promptly before they escalate.

In conclusion by adopting these strategies along with continuous monitoring of market trends, consumer behavior patterns and competitor analysis businesses are able not only keep up with but also stay ahead in today's dynamic business environment.

2. The Label and Packaging Division faced an 89.17% drop in external revenue to RM0.59 million from RM5.45 million in FY2022. Market challenges, competition, and

strategic shifts led to a loss of RM0.71 million compared to a RM1.53 million profit in FY2022 (page 30 of AR 2023).

Given the division's current state, what specific measures or initiatives are being considered to turn around its financial performance and achieve profitability soon?

The group has divested Mega Label (Malaysia) Sdn. Bhd., which was primarily engaged in the labels and packaging business. Therefore, this classification will be excluded from future financial statements as the group is no longer involved in this line of business.

3. The Group is actively exploring opportunities to expand into new industries beyond apparel, used car credit financing, and medical devices with the aim of strengthening the resilience of the business and mitigating risks associated with market volatility (page 33 of AR 2023).

a. Given the Group's primary focus on the apparel industry, what factors and capabilities prompted the Group to venture into the used car credit financing and medical devices sectors?
b. How will the Group's experience in the apparel industry be leveraged to establish credibility and trust in the new ventures of used car credit financing and medical devices?

In response to the information provided, the Group's decision to venture into the used car credit financing and medical devices sectors can be attributed to several factors and capabilities. Firstly, diversifying into new industries allows the Group to reduce its reliance on a single sector, such as apparel, which may be susceptible to market volatility. By expanding into different sectors, the Group aims to strengthen its overall business resilience.

Furthermore, entering these new industries presents opportunities for growth and potential profitability. The used car credit financing sector offers a significant market with demand for financial services related to vehicle purchases. Similarly, the medical devices industry is experiencing continuous advancements and increasing demand due to technological innovations and an aging population.

The Group's experience in the apparel industry can be leveraged effectively in establishing credibility and trust in these new ventures. Over time, they have likely developed strong relationships with suppliers, customers, and other stakeholders within their existing industry network. This established reputation can help facilitate partnerships or collaborations when entering unfamiliar territories like used car credit financing or medical devices.

Additionally, the knowledge gained from operating in the apparel industry could offer valuable insights applicable across various sectors. For instance, expertise in supply chain management acquired through dealing with global sourcing of materials could prove advantageous when navigating complex supply chains associated with medical device manufacturing. Moreover, the company's management and founder possess a profound understanding of the Chinese market and its products, resulting in a strategic focus on the medical industry that is expected to yield significant results within a few years.

Overall, by leveraging their existing capabilities while exploring new industries beyond apparel through strategic expansion efforts like used car credit financing and medical devices ventures; it is expected that this will enhance business resilience while capitalizing on growth opportunities outside their primary focus area.

4. The Group's trade receivables and contract assets credit impaired that were past due more than 120 days have increased significantly from RM0.1 million in FYE2022 to RM1.6 million in FYE2023 (page 219-220 of AR2023).

a. What were the difficulties faced by the Group in the collection of the trade receivables that were past due more than 120 days as the outstanding amount increased?

In the field of apparel, we are engaged with globally renowned brands and their extensive supply chain. However, due to the need for verification of bill details by the other party and time differences across various locations, this often results in our company receiving payments beyond the indicated payment period on the invoice. Nevertheless, a significant portion of our payments is already secured through factoring.

b. Who are the customers and who make up this category (past due 120 days) of the Group's receivables on FYE2023 and what are their profiles?

The primary reason is that one of the less significant buyers receives bulk orders through sight letters of credit, while sample orders are processed with Open Account/ telegraphic transfer terms for a 30-day payment period. However, it is common for the buyer to pay by check. Therefore, in order to align with the accounting period ending on March 31st, it becomes categorized in such a way as to represent the debtors aging. Nevertheless, we have already received payment for the goods after March 31st.

c. To-date, how much of the overdue amount has been collected?

The entirety of the debt mentioned above has been successfully collected up to the present date.

5. The allowance for impairment losses on lease receivables increased substantially from RM241,000 in FYE2022 to RM2.16 million in FYE2023 (page 184 of AR2023).

a. What was the reason for the substantial increase in impairments?

At the end of the reporting period, Southern Auto Capital Sdn. Bhd. (SAC), one of the subsidiaries engaged in hire-purchase financing business, evaluates whether there has been a significant increase in credit risk for financial assets by comparing the probability of default occurring over their expected life with that since initial recognition under MFRS 9 accounting standard. As of 31.03.2023, SAC is required to recognize a 12-month Expected Credit Loss (ECL) resulting from potential defaults within 12 months after the reporting date. Consequently, a provision for 12-month ECL is recognized in profit or loss and an impairment allowance is established,

leading to an increase in credit loss charge from RM241,000 to RM2.16 million. However, this provision can be reversed upon any indication of improvement in collection performance over time.

b. How much of these impairments have been recovered to-date?

The collection trends from April to July 2023 have shown promising signs. However, given the current uncertainties, it is challenging to predict our impairment and non-performing loan (NPL) trends accurately. Nevertheless, we anticipate that there will not be a persistent increase in impairment or elevated NPL levels. The recovery of written-off receivables would be minimal.

c. What percentage of these impairments are expected to be non-recoverable?

An estimated 5.47% of impairment losses are recognized by SAC, highlighting the crucial importance of ensuring prompt repayment from our hirers. It has been observed that the substantial increase in impairments is primarily attributed to a majority of SAC hirers belonging to the B40 segment as borrowers. Consequently, our strategic approach entails prioritizing credit recovery and fortifying our credit management policy while closely monitoring repayments throughout the year.

As of 31.03.2023, total cars of SAC: 1588
118,256.90/(1,198,994.91+122,864+11,841+826,351) = 5.47%
[10 auctioned cars/(total auctioned & ELC cars :due aging more than 3 months + ECL-due interest + ECL-postage & overdue interest + 12 months ECL)]

d. Are impairments expected to increase going forward?

Management has had to exercise significant judgment in assessing the likelihood of default for hire purchase receivables, based on comprehensive analysis of the financing portfolio data, including repayment patterns and historical delinquency rates of non-performing loans. This assessment also incorporates forward-looking information, considering the substantial increase in credit risk and estimated recoverable cash flows under worst-case scenarios. Furthermore, impairment losses are determined by estimating recoveries from repossessed vehicles net of outstanding balances owed by the receivables. Moving forward into FYE2024, our objective is to gradually minimize additional impairments while actively engaging in repossession activities that will enable SAC to recoup asset value through auctions.

Corporate Governance Matters

1. The Group recognizes its non-adherence to Practice 4.4 of the MCCG, which mandates the assessment of Board and senior management performance, encompassing their handling of the Group's significant sustainability risks and opportunities (page 26 of Corporate Governance (CG) Report 2023).

When does the Group intend to integrate relevant sustainability Key Performance Indicators into the performance evaluation framework?

We acknowledge that the Group has not adhered to Practice 4.4 of the MCCG, which requires the assessment of Board and senior management performance, including their handling of significant sustainability risks and opportunities (as stated on page

26 of the Corporate Governance Report 2023).

We understand your concern regarding the integration of relevant sustainability Key Performance Indicators (KPIs) into our performance evaluation framework. We are actively working towards incorporating these KPIs into our evaluation process.

While we do not have a specific timeline at this moment, we assure you that it is a priority for us to align with best practices in corporate governance and sustainable development. Our aim is to ensure that sustainability considerations are adequately reflected in evaluating both Board and senior management performance.

2. The current Board composition lacks diversity, having only two female Directors, constituting a mere 25% of the entirety. This falls short of the suggested 30% benchmark in Practice 5.9 of the MCCG, which underscores the significance of substantial women representation (page 42 of CG Report 2023).

Considering the current Board's limited diversity, are efforts underway to identify fitting female candidates for an impending Director role within the Group? If so, when is the expected timeline for achieving this objective?

We acknowledge that there is room for improvement in terms of gender representation, as we currently have only two female Directors, which accounts for just 25% of the entire Board. This falls short of the recommended benchmark set out in Practice 5.9 of the MCCG, which emphasizes the importance of substantial women representation (refer to page 42 of CG Report 2023).

We are committed to addressing this matter and actively working towards identifying suitable female candidates for an upcoming Director role within our Group. Our aim is to enhance diversity and ensure a more balanced representation on our Board.

While we do not have an exact timeline at this moment, rest assured that efforts are underway to achieve this objective as soon as possible. We understand the significance of having diverse perspectives and experiences at decision-making levels.

3. The Group acknowledges its departure from Practice 5.10 of the MCCG, which requires the disclosure of gender diversity policies for the Board and senior management in the annual report. However, the Board has only two female directors, and there are no established gender diversity policies or targets (page 43 of CG Report 2023).

When does the Group plan to disclose in its annual report the Group's policies on gender diversity, its targets, and measures to meet those targets?

We understand the importance of gender diversity and are committed to addressing any shortcomings in our current policies. Our team is actively engaged in rectifying this situation, as we believe that a diverse workforce fosters innovation and drives success. Most of our workforce consists of women. Additionally, we have a significant number of female department heads.

In order to ensure transparency and accountability, we plan to disclose our

comprehensive gender diversity policies in future annual reports. These policies will outline specific targets and measures that we have set for ourselves to achieve greater gender balance within our organization.

By setting clear goals and implementing targeted strategies, we aim to create an inclusive environment where everyone has equal opportunities for growth and advancement. We recognize the value of diverse perspectives, experiences, and talents in driving creativity, problem-solving, and overall business performance.

Furthermore, it is important for us not only to establish these targets but also to measure our progress towards achieving them. Regular monitoring of key metrics will enable us to assess the effectiveness of our initiatives while identifying areas that require further attention or improvement.

We firmly believe that by openly sharing our gender diversity policies with stakeholders through annual reports, we can foster trust among employees, investors, customers, and the wider community. This commitment reflects our dedication towards creating a workplace culture that embraces equality and empowers individuals from all backgrounds.

As part of this ongoing effort towards inclusivity, we remain open to feedback from various stakeholders who may offer valuable insights on how best to enhance our gender diversity initiatives. Together with their input combined with internal expertise, we strive for continuous improvement as we work towards building a more equitable future within our organization.

4. The Company has put forth a proposition to obtain shareholder approval for granting Employees' Share Option Scheme (ESOS) Options to Ms. Goh Wen Ling, an Independent Non-Executive Director of the Company (Resolution 9) (page 4 of AR2023).

The term "Employees" in ESOS explicitly signifies that the scheme is intended for the benefit and participation of employees of the company. It is crucial to acknowledge that Independent Non-Executive Directors (INEDs), who serve in a non-executive capacity, are not classified as employees of the company.

MSWG discourages the participation of INEDs in any form of share options due to their non-executive management roles and responsibilities in overseeing the allocation of share options to executive directors and employees.

The allocation of ESOS to Ms. Goh Wen Ling raises concerns regarding potential conflicts of interest, dilution of independence, impaired objectivity, and shareholder value preservation. These risks arise due to the possibility of INEDs being influenced by personal financial interests aligned with share price performance, compromising their objectivity in oversight duties and decision-making processes.
Considering that the INED does not have executive responsibilities and is already adequately compensated through director fee and other benefits, what is the compelling justification for allocating ESOS to Ms. Goh Wen Ling?

Although it is not encouraged for the independent or non-executive director to participate in the Employees' Share Option Scheme (ESOS), this resolution aims to obtain shareholders' mandate in advance, allowing the independent director to

potentially engage in the group's future equity incentive plan. However, we understand it is crucial for the board of directors to adhere to listing regulations and ensure that any such incentive does not constitute a significant equity stake, thereby safeguarding the professional independence of the independent director. Moreover, implementation or achievement of this resolution is not necessarily obligatory after its passage.

The expression of gratitude is extended, and we eagerly anticipate your attendance at the forthcoming shareholders' meeting.

Yours sincerely,
On behalf of the Board of Directors

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