PCCS GROUP BERHAD
Company No. 199301026191 (280929-K)

26 August 2024

MINORITY SHAREHOLDERS WATCH GROUP
Level 23, Unit 23-2, Menara AIA Sentra
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Dear Management Team,

Re: 30th Annual General Meeting (AGM) of PCCS Group Berhad ("PCCS" or "the Group") to be held on Monday, 26th August 2024

On behalf of my esteemed Board of Directors, I express my heartfelt gratitude and hereby extend our prompt response to your esteemed letter dated 19 August 2024.The answers are graciously provided below for your kind perusal.

Operational & Financial Matters

1. **In FY2024, the apparel division, operating in China and Cambodia, generated RM367.81 million in revenue, down 19.58% from FY2023, primarily due to reduced sales from Hong Kong apparel division (page 24 of Annual Report (AR) 2024).**

   a) **Given the significant drop in the apparel division's revenue relative to the Group's revenue, please provide a year-on-year sales breakdown by market for the apparel division.**

	FYE 2024 (RM'000)	FYE 2023 (RM'000)	Difference (RM'000)
Cambodia	27,740	20,780	6,960
The People's Republic of China	157,997	190,185	(32,188)
Hong Kong	182,074	246,457	(64,383)
Total	367,811	457,422	(89,611)

   b) **Does Hong Kong's market contribute the most to the apparel division's profit margins until the recent drop in sales in this market caused a flattish effect on the apparel division's profitable performance of RM4.9 million?**
   The statement stands true, indeed.

c) What factors contributed to the sharp decline in Hong Kong's apparel sales, affecting the apparel division and Group's overall revenues? Was the downturn for Hong Kong apparel division expected to continue, or is it viewed as a one-time occurrence?

The significant downturn in Hong Kong's apparel sales can primarily be attributed to a reduction in orders from buyers, precipitating a substantial decline in the division's revenue. However, it is crucial to acknowledge that this setback is expected to be temporary as the buyers were depleting excessive stocks due to the lingering impact of the pandemic in recent years rather than indicative of a prolonged trend.

d) What is the outlook for the Hong Kong apparel market, and what strategies are planned to boost sales specifically for this market?

The outlook for the first half of the global consumers' market is highly promising, as evidenced by numerous prominent market reports. This bodes well for our Hong Kong apparel market, which has a significant boom potential. The sales division in Hong Kong exports garments to various parts of the world, excepting inner China. There are clear indications of recovery and global market momentum during the first quarter of the new financial year. To drive sales growth, we are implementing a range of strategic initiatives. Firstly, we aim to enhance client engagement by fortifying relationships with existing clients and attracting new ones through personalized interactions and exceptional service. Additionally, assertive marketing strategies and revitalized sales efforts will be deployed to reinstate previous sales levels and achieve further expansion in the current quarter.

In addition to the strategic initiatives, we are also investing in upgrading equipment and manufacturing facilities to stay ahead of industry trends and consumer preferences in new financial year. By staying up to date with the latest fashion styles and technologies, we can offer our clients innovative products that meet their evolving needs.

Furthermore, we are expanding our distribution channels by partnering with online retailers and exploring new markets both domestically and internationally. This will allow us to reach a wider audience and increase brand awareness.

To ensure sustainable growth, we are also prioritizing sustainability practices throughout our supply chain. We believe that responsible sourcing and production methods not only benefit the environment but also contribute to long-term profitability.

2. In FY2024, the credit financing division's (which specializes in providing loans for preowned automobiles) revenue rose by 68.48% to RM9.3 million, driven by higher interest income. PAT grew 94.68% to RM1.83million despite increased impairment allowances resulting from the weakened debt servicing capacity of certain customer segments. This led to a higher credit loss charge/net credit cost on average lease receivables of 9.85% as opposed to 6.23% recorded in FY2023 (page 24 of AR2024).

a) Which customer segments experienced weakened debt servicing capacity? Has the Group seen improvement in these customers' debt servicing ability? How are borrowers' repayment behaviours in the first three months of FY2025?

The B40 group (representing households with an income below RM 4,850 in Malaysia) is further categorized into four sub-groups based on their income range: Household Group. These borrowers face weakened debt servicing capacity due to susceptibility to macroeconomic policies and changes such as policy interest rate hikes, natural disasters like floods, job security concerns, etc. Additionally, some of them lack financial literacy which can lead to poor individual financial planning or a lack of discipline resulting in delayed scheduled instalment payments. Regarding repayment behaviours in the first three months of FY2025, they align closely with the Company's existing business model and risk appetite.

b) What is the total loan portfolio size for preowned automobiles loans in the Malaysian market? What percentage of the total preowned automobile loan market does the Group's credit financing division currently serve?

There is a dearth of comprehensive online information regarding the rather fragmented used-car market. The available data encompasses statistics provided by Moror Intelligence, an India-based market research company.
Quoting Datuk Tony Khor Chong Boon, president of the Federation of Motor and Credit Companies Associations of Malaysia, as cited in an article published by The Edge on March 5th, 2024, Mordor Intelligence highlights that between January and May 2021, a staggering 347,000 used cars were sold—a figure seemingly on par with the new car market in terms of volume. Furthermore, it asserts that Malaysia's used-car market was valued at US$25.14 billion during that year and is projected to reach US$35.25 billion by 2027—an impressive compound annual growth rate (CAGR) of 5.4%. Another India-based market research firm named Ken Research anticipates even more aggressive growth for the market at a CAGR of 8.5% from 2022 to 2027. Additionally, it emphasizes that the most sought-after price point for used cars falls below RM30,000 while Perodua, Proton Honda Toyota ,and Nissan emerge as the most popular brands in this domain. As such, the Group's credit financing division currently serves a clientele not yet worth mentioning.

3. **In FY2024, the other segment's revenue rose to RM0.73 million, a 48.98% increase driven by medical devices sales. However, a Loss After Tax of RM5.15 million was reported, worsened by lower dividends received from subsidiaries in the investment holding company and high development costs, amounting to RM3.8 million, incurred at the Singapore-based medical company, coupled with insufficient turnover to cover operational costs (page 24 of AR 2024).**

    a) **What is the name of the Singapore-based medical company and who are on the leadership team of the company, and what is their experience in the industry?**
    The Singapore-based medical company, La Prima Medicare Pte. Ltd, specializes in the trading of medical devices and conducts research & development in Singapore. The team comprises experienced Malaysians with over 20 years of expertise in this field. Additionally, one team member is a former general manager of Biosensors International Group, Ltd. in Malaysia, while another was previously a senior executive at St. Jude Medical and currently serves as our Regional Regulatory Affairs Manager. The team is led by the distinguished Mr. Gan Chee Eng, whose illustrious background as a former top executive at Amway Asia lends invaluable expertise to the table. Furthermore, the Research and Development project in Singapore is spearheaded by Corporate Controller, Dr. Tang Lai Huat.

    b) **What significant development occurred in the Singapore-based medical company? Please provide the breakdown of the RM3.8 million spent on the company.**
    Our medical device segment has expanded to Malaysia, Indonesia, the Philippines, and Thailand, resulting in a modest increase in sales over the past few months. Regarding the RM3.8 million spent made by the company, apart from the ordinary operating loss incurred, a significant portion was primarily attributed to one-time expenses related to research and development due to restructuring of strategic partner participation. This situation has led to an accounting predicament where it is challenging to recognize these expenditures as intangible assets according to accounting treatments. Although these expenses are immediately recognized in our Profit & Loss statement, it is important to note that the valuable intelligence and new scientific or technical knowledge acquired during this process remains within our company's possession. Furthermore, if this project eventually achieves its set goals successfully, we still have the opportunity for patenting these technical knowledges and intelligence.

    c) **Please explain how additional distributors can expedite the development process.**
    Appointing the right distributors is crucial in expediting the development process, as they possess the ability to strategically target hospitals and accounts for product deployment. Moreover, they play a pivotal role in establishing direct connections with medical practitioners, facilitating immediate feedback on regulatory changes. By doing so, we effectively mitigate risks associated with stock possession and exposure to commercial frauds or unauthorized product usage by end-users. Additionally, these distributors are instrumental in addressing one of the most critical challenges faced by our industry -

ensuring regulatory compliance through obtaining local authorized licenses for sales or internationally recognized certifications such as FDA or CE marking.

d) **What specific steps are being taken to increase turnover? Can we expect a turnaround for this division in the next fiscal years?**
Steps are going to be taken are expand the relevant product range as well as recruit more capable personnels from the industry to quickly open the market and niche into the distribution channels as well as deep cultivation of the channels; Starting a medical business can be both exhilarating and demanding, particularly when it comes to the development of novel devices. The process of bringing a product to market in this field can span anywhere from 5 to 15 years, contingent upon the intricacy of the device or pharmaceutical compound. Amidst periods of economic recession, this presents an even more formidable challenge for enterprises operating within the medical industry. They are confronted with a daunting decision: should they disregard the recessionary climate and assume that it will have dissipated by the time their product reaches fruition? Or should they temporarily suspend research and development (R&D) until there is greater clarity regarding prevailing economic conditions?
This predicament arises due to recessions exerting significant influence on consumer spending patterns and healthcare budgets. It becomes imperative for companies to meticulously evaluate whether allocating resources towards R&D during uncertain economic times is financially feasible or if it would be prudent to await more stable circumstances. On one hand, disregarding the recession may result in missed opportunities as competitors might persistently pursue their R&D endeavours unabatedly, potentially gaining an advantageous position once market conditions improve. On the other hand, halting R&D efforts could lead to delays in introducing innovative products to patients who stand to benefit from them.
Striking a balance amidst these factors necessitates thoughtful consideration and strategic planning. Companies must assess various facets such as financial stability, projections of market demand, regulatory requisites, and potential collaborations before making informed decisions about continuing or pausing their R&D activities.
Considering these challenges, the Group has devised a strategic plan to 1. Swiftly achieve profitability in our trading business; 2. Ensure that each individual R&D project attains significant milestones or progress within the designated timeline, enabling us to secure financing from the market and sustain these projects until scientific advancements transform into marketable technologies.

4. **The inventories grew by double digits, specifically 81.3% year over year, increasing from RM58.4 million to RM105.9 million in FY2024 (page 124 of AR2024).**

What do those inventories comprise? Will there be any write down or write off inventories? What are the Group plans to optimize inventory management?

	2024 (RM'000)	2023 (RM'000)	Difference (RM'000)	Growth %
Raw materials	77,755	43,159	34,596	72.92
Work-in-progress	7,641	5,268	2,373	5.00
Finished goods	20,537	10,059	10,478	22.08
Total	105,933	58,486	47,447	100.00

The surge in inventories, which experienced a remarkable 81.3% year-on-year growth from RM58.4 million to RM105.9 million in FY2024, predominantly consists of raw materials. As stated on page 156 of AR2024, an impressive 72.92% of this inventory increase can be attributed to the procurement of raw materials aimed at meeting the upcoming surge in orders for our esteemed Apparel segment.
Given that the expansion of inventory is directly linked to this surge in orders, we do not anticipate any significant write-downs or write-offs. Our vigilant inventory management practices ensure that purchases are closely aligned with customer orders and material consumption requirements. We consistently strive towards optimizing inventory management by aligning raw material procurement with actual order demands, thereby minimizing the risk associated with excessive or obsolete inventory.

Sustainability Matters

1. **The PCCS statement summarises their sustainable performance for FY2024 across multiple Asian locations. The disclosures focus on two entities: the Apparel Manufacturing Facilities at SGL in Suzhou, China, and WHD in Phnom Penh, Cambodia (page 54 of AR 2024).**

   a) **Why are the disclosures focused only on these two apparel manufacturing facilities when the Group also has facilities in Shandong, China, and Beauty Silk Screen in Cambodia?**
   The disclosures primarily focus on these two apparel manufacturing facilities due to their relatively substantial turnover, accounting for over 20% of the Group's total revenue. While the Group also operates facilities in Shandong, China, and Beauty Silk Screen in Cambodia, their contributions are comparatively less significant within the broader scope of financial disclosures.

b) **What is the utilization rate for each of the facilities as well as the financial contribution of each facility to the Group's revenue? Has the Group optimized the land utilization at the Shandong factory, as mentioned in the last AGM?**
We have effectively utilized each manufacturing facility; however, the Group has yet to optimize land utilization at the Shandong factory due to the challenging recruitment of sewers. This is primarily because most local citizens are engaged in their own agricultural lands. The management is planning to innovate recruitment strategies and salaries package, such as implementing different working hours systems.

c) **Please provide a comprehensive sustainable performance disclosure for those facilities not covered in the current statement in the following annual report.**
Facilities not covered in the current statement are regrettably unavailable for immediate access due to certain commercial constraints, but shareholders can rest assured that PCCS primarily engages with prominent and renowned international buyers. Our proven track record of securing an endless stream of orders is attributed to our unwavering commitment to Environmental, Social and Governance (ESG) principles, as well as alignment with our buyers' sustainability framework.

2. **The Group consumed 90% of recycled materials for garment production at Wan He Da Manufacturing Company Limited (WHD) (page 56 of AR2024).**

a) **What are the adoption rates of these eco-friendly options among consumers? Which demographic segments are inclined to purchase sustainable and innovative products?**
Our consumers consistently advocate for eco-friendly options, resulting in a steadfast preference for sustainable and innovative products throughout our entire customer base. However, it should be noted that there are instances where certain raw materials are not available in recycled form.

b) **With the shift towards sustainable materials, has the Group experienced a significant rise in raw material costs? How is this being mitigated to ensure product profitability for the Group and affordability for customers?**
Yes, we have witnessed a surge in raw material costs as a consequence of the transition towards sustainable materials. In order to counterbalance this impact and uphold product profitability while ensuring affordability for our valued customers, we concentrate on waste reduction throughout the production process and procure the most cost-efficient and compatible raw materials. Furthermore, our well-established partnerships and resilient supply chain empower us to secure competitive pricing and deliver top-notch products.

c) **Does WHD stand alone in developing products using sustainable materials within the apparel manufacturing industry? Is there an intention to adopt this practice across other manufacturing sites, and if so, what is the anticipated timeline for this expansion?**
WHD is not alone in spearheading the pioneering utilization of sustainable materials within the apparel manufacturing industry. The additional information remains consistent with that stated above 1 (c).

3. **The Group has outlined two environmental sustainability targets for PCCS Garments (Suzhou) Limited (SGL) as below.**

What are the main reasons or challenges for SGL to fail to achieve the target?

Maintaining Environmental Sustainability			
To reduce overall electricity consumption by 2%. (Baseline FY2020: 1,263,415 kWh)	SGL	13	Not Achieved (1,524,510 kWh)
To reduce water consumption intensity by 3%. (Baseline FY2020: 0.00288 m³/pc)		12	Not Achieved (0.00287 m³/pc)
To reduce water consumption intensity by 1%. (Baseline FY2020: 0.00464 m³/pc)	WHD	12	Achieved, 7% reduction from FY2020 (0.00429m³/pc)

The primary obstacles encountered by SGL in attaining its environmental sustainability objectives are as follows: Escalated Electricity Usage: Numerous factors have contributed to the upsurge in electricity consumption. These encompass a surge in orders for the heat sublimation department, resulting in heightened utilization of high-power press machines; augmented operational demands on the finishing department's equipment due to additional ironing orders; and a substantial increase in the usage of electric boilers. Furthermore, departments that previously lacked air conditioning, such as the cutting department, have had to lease two 20hp air conditioners for the summer season owing to unusually elevated temperatures compared to previous years. Reduction of Water Consumption Intensity: The targeted reduction in water consumption of 3% was not achieved and instead only amounted to a mere 0.3% due to an underground water pipe leakage issue. The investigation into this matter proved time-consuming, with the leak being identified only in May 2024.

4. **Regarding environment and energy conservation, what are the Group's plan and targets for carbon neutrality, reducing greenhouse gas emissions, and using renewable energy?**
Our Group is dedicated to integrating environmental and energy conservation principles into our operations. While our primary focus remains on generating profits and achieving cost savings to deliver substantial returns to our shareholders, we acknowledge the critical importance of carbon neutrality and reducing greenhouse gas emissions. We are actively working towards aligning our economic objectives with sustainability goals by incorporating renewable energy sources and

implementing strategies to minimize our carbon footprint. Detailed information regarding our strategies and initiatives can be found in our sustainability report, which outlines our commitment to attaining significant environmental benefits while maintaining robust economic performance.

Corporate Governance Matters

1. **The salaries and other emoluments of Mr. Chan Chow Tek, a non-independent non-executive director, amounted to RM620.4 thousand in FY2024, which is significantly higher than those of other non-executive directors.**

   Additionally, below is the historical data on Mr. Chan's salaries and other emoluments, which are consistently high throughout the years from 2021, even after his redesignation to Non-Independent Non-Executive Director in November 2020

Salaries and other emoluments (RM'000)	2020*	2021	2022	2023	2024
Chan Chow Tek	640	583	588.3	608.4	620.4

   Is Mr. Chan Chow Tek still leading the Group's marketing activities and responsible for the development and growth of the garment business despite being redesignated from Executive Director to Non-Independent Non-Executive Director in November 2020?

   Please explain the rationales for the salaries and other emoluments payments of Mr. Chan Chow Tek, which amounted to RM620.4 thousand in FY2024, notably greater than that of other non-executive directors.
   Most importantly, he continues to embody the persona of PCCS (Hong Kong) Limited's ambassador to all esteemed customers. In the past, he dedicated considerable time and effort in personally attending to the diverse travel requirements and well-being of individual clients. However, currently his is not involved in the day-to-day operations and strategic decisions of our conglomerate. This approach enhances our credibility and ensures a seamless transition for our valued clientele. Nonetheless, we have already devised a more comprehensive succession plan.

2. **The Board has not adopted Practice 5.2 of the Malaysian Code on Corporate Governance (MCCG), which states that at least half of the board comprises independent directors. For large companies, the board comprises most independent directors.**

   The Board currently consists of eight (8) members, comprising one (1) Senior Independent Non-Executive Chairman, one (1) Group Managing Director, one (1) Executive Director, three (3) Non-Independent Non-Executive Directors and two (2) Independent Non-Executive Director (page 30 of Corporate Governance (CG) Report 2023).

Guidance 5.2 of the MCCG highlights that a board comprising most independent directors allows for more effective management oversight.

What criteria are being used to evaluate the effectiveness of the current Independent Directors, and how will this impact the selection of new candidates?
The classification of independence is limited to non-executive directors exclusively, excluding worker directors. Furthermore, any individual who has or had a significant business relationship with the company in the past three years, either directly or indirectly through another entity, would not be considered independent. This criterion encompasses individuals possessing industry knowledge, financial acumen, strategic planning capabilities, legal expertise, and leadership skills. Distinguished board members exhibit critical thinking abilities and make well-informed decisions while providing effective oversight. The evaluation of Independent Directors' performance is conducted by the entire Board of Directors (excluding the Director under assessment) through self-assessments. Each director independently completes a questionnaire evaluating the board's processes, effectiveness, and their own contributions. Although this allows for introspection, it also carries the risk of inherent biases when directors rate themselves. Moreover, based on this evaluation process, it will be determined whether to extend or continue an appointment.

Have the Board found suitable candidates to be appointed as the additional independent Non-Executive Directors? What are the qualifications and experience the Board is seeking in a potential independent Director?
Due to the limitations imposed by our available resources and internal strategies, we are currently inclined towards maintaining the existing structure for at least the upcoming fiscal year.

3. **The Board has not adopted Practice 5.9 of the MCCG which states that the board comprises at least 30% women directors.**

   As of 31 March 2024, the Group has two female Directors out of 8 Directors, representing 25% female representation on the Board (page 42 of Corporate Governance (CG) Report 2023).

   At the Group's 29th AGM, the management/board stated that there is no exact timeline for adopting this practice but mentioned that efforts are underway to achieve this objective as soon as possible.

What steps has the Board taken to address the shortfall and meet the recommended percentage of women directors?

We recommend sourcing candidates from organisations such as the 30% Club Malaysia and the Institute of Corporate Directors Malaysia (ICDM).

The current gender representation on our Board, with only two female Director's accounting for just 24% of the entire Board, leaves room for improvement. This falls short of the recommended benchmark set out in Practice 5.9 of the MCCG, which emphasizes the significance of substantial women representation. Although we are diligently striving to address this matter and continuously identifying highly suitable female candidates for an imminent Director role within our esteemed Group, the provision of additional consideration shall remain consistent with that stated above in question 2. Our aim is to enhance diversity and ensure a more balanced representation on our esteemed Board.

Sincerely yours,

Dr. Tang Lai Huat
Mobile # +6012 7940574