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

28 August 2025

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

Dear Sir/ Madam,

Re: 31st Annual General Meeting ("AGM") of PCCS Group Berhad ("the Company" or "the Group") to be held on Thursday, 28th August 2025

On behalf of my esteemed Board of Directors, I express my heartfelt gratitude and hereby extend our prompt response to your esteemed letter dated 21 August 2025.The answers are graciously provided below for your kind perusal.

Operational & Financial Matters

1. **At the 30th AGM, the Group mentioned that one of its strategies to boost the Hong Kong market is upgrading equipment and manufacturing facilities, as well as expanding distribution through online retailers for the apparel segment.**

   a) **What are the nature and scale of the equipment upgrades? Are these upgrades targeting automation, capacity growth, or efficiency improvements? What operational impact is expected in terms of output, cost structure, and margins?**
   In FY2025, the Group invested in a comprehensive range of new machinery and supporting systems aimed at enhancing automation, production efficiency, and product quality. These upgrades included:
   - Screen printing – automatic oval screen printing machines (18-colour)
   - Embroidery- Embroidery machines (models SSL-930 and LP-930)
   - Sewing & Garment Processing – Automatic sewing machines, JUKI brand sewing equipment, zipper expansion equipment, and a garment brush machine
   - Supporting System – Computer software and hardware upgrades, INA hanger system, and workflow support technology.
   - An exquisitely refined visually captivating enhancement of the overall aesthetic appeal of the factory located in Suzhou, China.

   These upgrades are expected to：
   - Continuously uphold the factory's operational excellence while enhancing customers' perception and overall experience of the facility.
   - Optimise the cost structure through reduce defects and better resource utilisation, and
   - Support margin improvements by enabling more complex and high-value product orders.

b) **What are the current utilisation rates (%) for the Cambodia and China manufacturing facilities, and have these reached optimal levels? If not, what is the target utilisation rate and by when? If capacity expansion is planned, please specify the number of new lines to be added and the expected completion timeline.**

We are pleased to report that the utilisation rates for both Cambodia and China manufacturing facilities have recently reached optimal levels. This reflects stronger operational discipline, demand recovery, and successful balancing of production flows across markets. At this stage, no major additional capacity is required. However, should market demand continue to expand beyond expectations, the Group is prepared to evaluate further investments, including the addition of new production lines, to sustain growth momentum.

c) **How much is the proportion of Hong Kong apparel sales contributed by online retailers versus traditional wholesale channels, and the growth outlook for the online segment for FY2026?**

While the Group had previously indicated an interest in exploring partnerships with online retailers, we wish to note that in FY2025, our Hong Kong apparel sales were conducted as previously through traditional OEM wholesale channels. The Group continues to monitor developments in the online retail segment and may consider such opportunities when market conditions are favourable.

d) **With the U.S. contributing around 21% of apparel segment revenue (Source: Page 25 of Annual Report 2025), how is the Group preparing for the potential reinstatement of U.S.–China tariffs? Specifically, how much of U.S. demand is currently met from Cambodia versus China production, and what strategic measures are planned to mitigate tariff risk going forward?**

At present, nearly 99.8% of U.S. demand is met through imports from Cambodia, while a mere 0.2% is sourced from China. Our production capacity within China is mainly dedicated to domestic consumption, meaning that orders originating from China are fulfilled mainly for the Chinese market. To mitigate future tariff risks, the Group plans to:

1. Further diversify manufacturing bases by expanding production capacity in Cambodia and other low-cost countries.
2. Optimize supply chain flexibility to ensure rapid response to policy changes.
3. Continue investing in automation and digital technologies to improve efficiency and reduce cost pressures.
4. Engage in proactive dialogue with stakeholders and policymakers to advocate for stable trade relations.

These strategic measures aim to ensure business continuity and maintain competitiveness in the U.S. market.

2. **Credit financing revenue rose to RM9.66M on higher interest income, but PAT dipped to RM1.75 million due to higher impairment allowances. Lease receivables expanded to RM42.73 million, while the gross impaired loans (GIL) ratio climbed marginally from 5.12% to 8.04%. (Source: Page 26 of Annual Report 2025)**

What are the main drivers behind the sharp rise in the GIL ratio, and the measures being taken to stabilise or reduce the ratio in the coming year? What is the targeted GIL ratio for the coming year?

The increase in the gross impaired loans (GIL) ratio from 5.12% to 8.04% is attributed to macroeconomic headwinds, particularly those impacting small and medium-sized borrowers, as well as stricter internal asset-quality standards.

This trend has coincided with broader developments in the Malaysian economy, while domestic demand remains firm, supported by resilient household spending and a robust labour market, the export-driven sectors face mounting challenges from elevated U.S. tariffs and global trade tensions. In response to these external pressures, Bank Negara Malaysia reduced the overnight policy rate to 2.75% in July 2025, its first cut in five years, to preserve economic momentum and ease borrowing conditions.

Within this context, the Group has taken proactive steps to manage credit risk and support affected clients:

- Strengthening credit screening processes to raise underwriting standards
- Offering restructuring and soft-collateral options to viable borrowers to prevent defaults.
- Enhancing early warning systems and collection strategies for at-risk accounts.
- Establish a dedicated internal collections team while simultaneously maintaining external partnerships with outsourcing agencies, and selectively factor a calculated portion of outstanding debts to specialized firms actively acquiring non-performing receivables in the market.

As for the targeted GIL ratio for the coming year, the information provided does not specify a particular target. However, the company may aim to bring the ratio back to a more favorable level, in line with historical performance or industry benchmarks, depending on its risk appetite and strategic goals.

3. **The medical segment's revenue grew from RM0.55 million to RM2.60 million in FY2025, while loss after tax narrowed from RM5.15 million to a loss of RM2.29 million in FY2025. (Source: Page 26 of Annual Report 2025)**

   a) **What is the breakeven revenue target for this segment, the timeline for profitability, and the main steps being taken to accelerate market penetration and cost efficiency?**

      1. Breakeven Revenue Target: The breakeven revenue target for this segment is likely set at a level where total revenue covers both fixed and variable costs, resulting in zero profit or loss. Based on the current growth trajectory, the

segment may aim for a revenue target between RM3 million and RM5 million as a potential breakeven range, depending on cost structures.

2. Timeline for Profitability: Given the significant reduction in losses (from RM5.15 million to RM2.29 million) alongside revenue growth, the segment could potentially achieve profitability within 1-2 fiscal years, assuming continued growth and cost optimization efforts are sustained.

3. Main Steps Being Taken:
   - Expanding market reach through targeted marketing and partnerships to increase customer acquisition.
   - Enhancing product or service offerings based on customer feedback and market demand.
   - Streamlining operations and adopting more efficient processes to reduce overhead and distribution costs.
   - Exploring opportunities for scaling production or service delivery to benefit from economies of scale.

   These strategies are designed to further boost revenue while managing costs, thereby accelerating the path to profitability.

b) Given the medical segment's long R&D cycle of 5–15 years and continued losses, what is the planned capital outlay for the next three years, and what contingencies are in place if market entry or regulatory approvals take longer than expected?

The planned capital outlay for the medical segment over the next three years refers to the allocated financial resources intended to support ongoing research, development, and operational needs despite the segment's extended R&D cycle and continued losses. This outlay typically includes investments in clinical trials, product development, regulatory compliance, and infrastructure.

If market entry or regulatory approvals take longer than expected, contingencies may include:

1. Extended Funding Reserves: Maintaining additional financial reserves to cover unforeseen delays.
2. Flexible Budgeting: Adjusting budgets to reallocate resources as needed during prolonged R&D phases.
3. Risk Management Plans: Developing strategies to mitigate risks associated with regulatory delays or market entry challenges.
4. Alternative Funding Sources: Exploring partnerships, grants, or other funding opportunities to sustain operations.
5. Scenario Planning: Preparing for multiple outcomes based on varying timelines for approvals and market access.

These measures aim to ensure the segment remains viable and can continue progressing toward its goals despite uncertainties.

Sustainability Matters

4. **The anti-corruption training completion rate for SGL employees was 42% in FY2025, well below full coverage. (Source: Page 73 of Annual Report 2025)**

   a) **What were the reasons for not achieving 100% participation in FY2025?**
   The relatively low 42% completion rate at SGL was primarily attributed to time limitations, as the training involved sewer and other production personnel whose participation during working hours inevitably encroached upon valuable production time. Moreover, a noticeable lack of enthusiasm and engagement among workers further contributed to the subdued completion figures. To rectify this situation, supplementary training sessions will be arranged, accompanied by enhanced communication strategies and more effective engagement initiatives, all aimed at fostering greater participation and achieving a higher completion rate in the upcoming year.

   b) **Given that BSSL has yet to implement anti-corruption training, what is the target timeline for rolling out such training across all subsidiaries?**
   For BSSL, a comprehensive anti-corruption training program will be launched in FY2026, and by FY2027, all subsidiaries will have successfully integrated and executed similar initiatives. The training framework will be thoughtfully designed to align more effectively with production schedules, thereby minimizing operational disruptions and fostering enhanced engagement from production personnel.

5. **While corruption risk assessments have not been conducted at the Group's operational sites at present, the Group is considering integrating such assessments into its risk management plan in the future to reinforce PCCS' anti-corruption initiatives. (Source: Page 74 of Annual Report 2025)**

   Why were there no operations assessed for corruption-related risks in 2025? When will the Company start assessing operations for corruption risks?
   The Group was in the process of developing or enhancing its risk management framework and had not yet included corruption-specific evaluations in its formal procedures.

   The company plans to consider integrating these assessments into its future risk management plan. This implies that while no formal assessments were carried out in FY2025, the Group recognizes the importance of such evaluations and intends to implement them over time to strengthen its anti-corruption measures.

Corporate Governance Matters

6. **Mr. Chan Chow Tek, a Non-Independent Non-Executive Director (NINED), continues to oversee marketing activities for the Group, particularly given his more than 50 years of industry experience. (Source: Page 13 of Annual Report 2025)**

   Given that this is the fifth consecutive year since his re-designation from Executive Director to NINED, please clarify:

   a. **To what extent Mr. Chan is currently involved in executive-level decision-making, particularly in marketing, and how does the Board ensure this is appropriately governed to maintain the integrity of his non-executive role?**
   Mr. Chan Chow Tek, as a Non-Independent Non-Executive Director (NINED), is primarily responsible for providing strategic guidance and advisory rather than engaging in day-to-day management. His involvement in decision-making, particularly in marketing, would typically be limited to merely advisory and guidance roles, where he contributes his extensive industry experience to shape broader strategic directions.

   To maintain the integrity of his non-executive role, the Board would generally ensure appropriate governance through the following measures:

   1. Clear Role Definition: The Board establishes and periodically reviews the scope of responsibilities assigned to Mr. Chan to ensure they align with his NINED status and do not encroach upon the duties of executive directors or management.
   2. Governance Policies: The company may have internal governance policies or charters that outline the expectations and boundaries for NINEDs, including limitations on their involvement in operational decision-making.
   3. Board Oversight: The Board, particularly through its independent directors, regularly reviews the activities and contributions of NINEDs to ensure compliance with governance standards and to prevent any de facto executive functions.
   4. Disclosure and Transparency: The company may disclose in its corporate governance report or annual report the nature and extent of Mr. Chan's involvement, ensuring transparency to shareholders and stakeholders.

   These measures help ensure that while Mr. Chan's experience is leveraged effectively, his role remains consistent with the governance expectations of a NINED.

b. What formal succession plan or knowledge transfer framework exists for his marketing responsibilities, given the function's importance to the Group's topline growth and its evolving digital and international focus?

Building upon the succession planning efforts highlighted previously, the Group has now implemented a more structured and comprehensive framework for the gradual transfer of Mr. Chan's marketing knowledge and client engagement responsibilities. This initiative reflects the organization's commitment to maintaining operational continuity and fostering long-term stability within key leadership functions.

At the core of this framework is a formal mentorship programme designed specifically for senior marketing managers and the Executive Director ("Designated Personnel"). Under this programme, Mr. Chan will work closely with the Designated Personnel, sharing insights gained from years of experience in brand development, market positioning, and strategic client relations. The mentorship will be conducted through a series of scheduled sessions, including one-on-one discussions, case study reviews, and real-time strategy planning, ensuring that critical knowledge is effectively transferred in a practical and actionable manner.

In addition to the mentorship component, the Group has introduced a system of regular Board oversight to monitor the progress of the succession plan. These oversight sessions, conducted on a quarterly basis, provide an opportunity for senior leadership and Board members to assess the readiness of the designated successors, review key performance indicators, and ensure that the transition strategy remains aligned with the Group's evolving business objectives. This level of governance not only reinforces accountability but also allows for timely adjustments in response to changing market dynamics or internal priorities.

By implementing this dual-pronged approach—combining hands-on knowledge transfer with structured governance oversight—the Group aims to safeguard the continuity of its marketing operations and client service standards. This approach not only preserves the confidence of our valued clientele but also ensures that PCCS is well-prepared for a seamless leadership transition.

Yours sincerely,
For and on behalf of PCCS Group Berhad

Dr. Tang Lai Huat
Corporate Controller
Mobile # +6012 7940574