



PCCS GROUP BERHAD

Company No. 199301026191 (280929-K)

27 August 2026

MINORITY SHAREHOLDERS WATCH GROUP

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

Dear Sir/ Madam,

Re: 32nd Annual General Meeting (“AGM”) of PCCS Group Berhad (“the Company” or “the Group”) to be held on Thursday, 27th August 2026

On behalf of the Board of Directors, I thank you for your letter dated 18 August 2026 (Reference: MSWG-CM-04-27/26). Set out below are the Group's responses to each question raised, structured strictly in accordance with the numbering in your letter.

OPERATIONAL AND FINANCIAL MATTERS

1. Apparel revenue increased 2% year -on -year (“ YoY ”) to RM543.86 million in FY2026, driven mainly by stronger trading sales in Hong Kong supported by higher manufacturing output from Cambodia. PAT rose 68% YoY to RM26.66 million on stronger sales orders. However, the Group expects a more moderate FY2027 due to the high base effect and softer order visibility from key customers. (Source: Pages 26 and 28 of AR2026).
- a. The Group attributed the increase in apparel revenue primarily to higher trading sales in Hong Kong. However, geographical revenue from Hong Kong decreased by 10.8% YoY to RM287.7 million in FY2026 from RM322.5 million in FY2025. (Source: Page 197 of AR2026) Please explain how these two disclosures reconcile.

The Board acknowledges that the wording in the Annual Report 2026 could have been clearer, and we appreciate the opportunity to clarify the intended operational context.

When we referred to "stronger trading sales in Hong Kong supported by higher manufacturing output from Cambodia" in the Management's Discussion and Analysis ("MD&A"), we were describing the Hong Kong–Cambodia apparel cluster, which the Group manages internally as a single integrated supply chain. Under this cluster model, Hong Kong serves as the Group's primary trading and customer-facing operation, while the Cambodia-based factories act as the core manufacturing engine.

When analysing these two intertwined operations on a combined and constant-currency basis, joint sales increased by approximately 3%, rising from RM351.8 million in FY2025 to RM363.6 million in FY2026. However, the rapid strengthening of the Malaysian Ringgit



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against the Group's functional trading currencies during the financial year generated an adverse foreign-exchange translation impact of approximately RM27.4 million. Consequently, the translated combined sales reported in Ringgit terms ended at RM336.2 million in FY2026, compared with RM351.8 million in FY2025.

Viewed strictly through the audited geographical-segment lens, the translated sales volume attributed to Hong Kong alone shows a reduction of 10.8% (from RM322.5 million to RM287.7 million). The reference in the MD&A narrative was therefore intended to reflect the positive operational momentum of the integrated Hong Kong–Cambodia cluster, rather than the standalone Hong Kong geographical performance.

Moving forward, Management will ensure that annual disclosures explicitly distinguish the operational/management view from the audited geographical-segment disclosures to avoid ambiguity.

b. Why are the strong sales recorded in FY2026 not expected to recur in FY2027, particularly given Management's response at the 31st AGM that the upgraded machinery has helped reduce defects and improve margins?

The Cambodia operations have benefited from investments in technology and production capabilities, particularly in sublimation printing. These investments have improved production capabilities, product quality and productivity, and have helped the Group secure additional orders. Management expects the benefits from these investments to continue.

That said, three factors underpin the more moderate FY2027 outlook:

- (i) **High base effect:** The apparel segment delivered PAT growth of 68.2% in FY2026 (from RM15.855 million to RM26.662 million). This exceptionally strong performance creates a high comparative base, making a repeat of the same rate of growth arithmetically challenging.
- (ii) **Softer order visibility:** As at the time of finalising the Annual Report, order visibility from certain key international brand clients for the first half of FY2027 was softer than in the corresponding period of the prior year, reflecting cautious inventory management by brand customers amid uncertain global consumer spending. The Group has, however, observed a gradual improvement in sales orders for the coming quarters.
- (iii) **Competitive and macro headwinds:** The competitive advantage arising from the Group's technology investments may moderate over time as other manufacturers



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increase their investment in similar capabilities. Greater industry capacity could result in increased competition, pricing pressure and lower margins. The outlook also remains subject to customer inventory management, sourcing decisions, macroeconomic conditions, geopolitical developments and evolving trade policies.

The upgraded machinery remains strategically important because it improves productivity, reduces defects and supports the Group's competitiveness. These efficiency gains are structural and are factored into the FY2027 base case; however, improved manufacturing capability alone cannot guarantee higher sales, as future sales ultimately depend on customer demand and order allocation. The reference to a "more moderate FY2027" should therefore be understood as a more cautious growth outlook, rather than an expectation of a significant deterioration in the apparel business.

- c. **What proportion of FY2026 sales orders does Management expect to be recurring in FY2027 and can the apparel segment sustain its improved profit margin of 5% in FY2026 versus 3% in FY2025 amid the softer order outlook? What factors may limit the Group's ability to maintain this margin?**

The Group maintains long-standing strategic relationships with several leading international apparel brands. Based on historical patterns and the current order pipeline, Management estimates that approximately 70% to 75% of FY2026 core customer programme value is expected to continue into FY2027, albeit at potentially lower volume levels per customer. This is consistent with the multi-year nature of client partnerships in the garment OEM/ODM industry. The remaining portion is subject to seasonal replenishment orders and new programme wins, which are less predictable. The Group does not assume that all FY2026 orders will automatically recur, and the above estimate is subject to customers' inventory management, sourcing strategies and prevailing market conditions.

The apparel segment PAT margin improved from approximately 3.0% in FY2025 to approximately 4.9% in FY2026, driven by structural improvements including:

- Higher capacity utilisation at Cambodian factories (from approximately 72% to 81%);
- Product-mix shift towards higher-value seamless bonding, functional fabric and sublimation products;
- Improved production efficiency, reduced defects and enhanced productivity from upgraded machinery;
- Better utilisation of manufacturing facilities; and
- Stronger cost management and supply-chain localisation.

Management believes the bulk of these margin gains are sustainable even at moderately lower volume levels, as product-mix upgrades and efficiency gains are embedded in the



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current operations. However, Management does not regard the FY2026 margin as a guaranteed level for FY2027 and does not expect further margin expansion in the near term.

Factors that may limit the Group's ability to sustain margins include:

- Lower capacity utilisation if customer orders weaken;
- Pricing pressure arising from increased competition;
- Changes in product mix, including differences between CMT and FOB orders (the transition from CMT to FOB can increase reported revenue without a proportionate increase in profit);
- Higher labour and manufacturing costs;
- Raw material and logistics cost movements;
- Foreign-exchange fluctuations;
- Trade policy and tariff developments; and
- Increasing competition in higher-value activities such as sublimation, as other manufacturers invest in similar technologies.

Accordingly, Management will place greater emphasis on profitability, productivity and cash generation rather than revenue growth alone, with the objective of preserving the structural improvements achieved in FY2026 while remaining disciplined in managing costs and production capacity.

2. To comply with Paragraph 10.13 of the Main Market Listing Requirements (“MMLR”), PCCS proposed to ratify its diversification into credit financing and insurance (“Proposed Ratification”) and demerge these businesses by transferring Southern Auto Capital Sdn. Bhd. (“SAC ”) to Southern Capital Group Sdn. Bhd. (“SCG ”) and distributing 100% of SCG to PCCS shareholders at one SCG share for every seven PCCS shares (“Proposed Distribution”). The Proposed Distribution would reduce PCCS’s NA per share from RM0.83 to RM0.67 and remove a business contributing 27% of Group PAT, while gearing improves only marginally from 0.48 times to 0.45 times. (Source: PCCS Bursa Announcement dated 13 July 2026)

a. Given that the proposals are not inter -conditional , what measurable financial benefits does the Board expect from the demerger that justify these trade -offs?

The Board acknowledges that the Proposed Distribution will result in a reduction in PCCS's NA per share and that the financial services segment currently makes a meaningful contribution to Group PAT. The objective of the demerger, however, is not to generate an immediate increase in PCCS's earnings or NA per share, but to create a more focused and sustainable corporate structure with measurable medium- to long-term financial and strategic benefits:



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(i) Capital allocation efficiency and balance-sheet quality

The credit financing business is inherently balance-sheet intensive, requiring continuous capital infusion to grow the lease receivables portfolio. As at 31 March 2026, SAC held lease receivables of approximately RM54.92 million, supported by block discounting borrowings of approximately RM21.07 million. Post-demerger, capital previously committed to financing portfolio growth will be released and redeployed exclusively to the apparel manufacturing business, where returns are higher and more aligned with the Group's core competencies. While the headline gearing ratio improves only marginally (from 0.48x to 0.45x), the deconsolidation of SAC's asset-backed borrowings materially improves the quality of PCCS's balance sheet and frees up debt headroom for value-accretive manufacturing capital expenditure. Cross-subsidisation of the financing arm by apparel cash flows is also eliminated, enforcing greater discipline in capital pricing.

(ii) Earnings quality and valuation transparency (conglomerate discount removal)

The current structure bundles a stable manufacturing business with a higher-risk, capital-intensive financing business, which typically results in a conglomerate discount. Post-demerger, PCCS will be a pure-play apparel manufacturing entity with a cleaner earnings profile, which is expected to attract dedicated manufacturing and consumer-sector investors and may support higher earnings multiple over time. Shareholders will simultaneously hold direct equity in SCG, the value of which can be independently assessed based on its own return on equity, asset quality and growth trajectory — SCG recorded PAT growth of 96.7% YoY to RM3.577 million in FY2026, with strong standalone momentum. Any future dividends declared by SCG will accrue directly to shareholders rather than being retained at the PCCS level.

(iii) Risk ring-fencing and strategic optionality

Credit, regulatory and interest-rate risks associated with the used-vehicle financing business will be legally ring-fenced within SCG, insulating PCCS shareholders from downside volatility in the financing cycle. As a standalone entity, SCG may also pursue its own funding channels — including bank facilities, private placements or a potential future listing — aligned with its business model, rather than being constrained by PCCS's capital allocation priorities.

The Board emphasises that shareholders do not suffer an erosion of economic value. The reduction in PCCS's NA is an accounting adjustment, fully offset by the SCG shares distributed to shareholders in specie on the basis of one SCG share for every seven PCCS shares held.

b. Following the demerger, how does Management intend to replace the earnings contribution previously generated by the financial services segment?

The Board recognises that the financial services segment currently contributes approximately 27% of Group PAT, and this contribution cannot be replaced immediately. Following the demerger, Management's strategy is to drive organic earnings growth from



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the core apparel business and to scale the medical segment as a second growth pillar, rather than to re-enter financial services.

(i) Deepening organic growth in apparel

Total capital expenditure of RM24.81 million was incurred in FY2026, of which RM20.74 million was allocated to apparel manufacturing capacity upgrades, automation and digitalisation. These investments are expected to deliver sustained productivity improvements and support higher throughput without proportional increases in the cost base. The Group will continue to shift its product mix towards higher-margin seamless bonding, functional fabric and technical apparel, and to reduce revenue concentration in Europe (currently 45.46% of apparel revenue) by expanding client acquisition in the United States, the Middle East and Southeast Asia.

(ii) Redeployment of capital into higher-return apparel assets

With the financing segment no longer consuming capital, PCCS's retained earnings and debt capacity can be directed towards strategic acquisitions of complementary apparel manufacturing capabilities, further automation and digital transformation, and vertical integration within the supply chain.

(iii) Capital return flexibility

The cleaner capital structure affords the Board greater flexibility to review dividend policy or undertake opportunistic share buy-backs when PCCS shares trade below intrinsic value, which would be earnings-accretive for remaining shareholders.

Management's assessment

In the immediate 12-month period following completion, PCCS's reported PAT will be lower on a pro forma basis (approximately RM10.211 million versus RM14.258 million). It is Management's target that organic growth from the apparel and medical segments will progressively narrow this gap over a two- to three-year horizon, with the added benefit of a potentially higher valuation multiple applied to a purer, lower-risk earnings stream. The Board recognises that there will be a transition period and that PCCS's earnings profile will be different from that of the Group before the transaction.

c. Will any existing PCCS Directors or senior management assume roles in SCG and if yes, how will Management ensure adequate management resources for both PCCS and SCG?

As disclosed in the Circular and based on information as at the latest practicable date of 30 June 2026, the directors of SCG are Dr. Tang Lai Huat and Mr. Ho Ming How both are also members of PCCS's senior management team.



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The Board has put in place the following safeguards to ensure adequate management resources for both entities:

1. Operational teams are already standalone

The credit financing business and insurance agencies already operate with distinct management structures, systems, policies and personnel. The internal reorganisation is principally a legal and holding-structure change; the operational teams remain intact and fully resourced. SAC already maintains independent credit underwriting, risk management, collection and finance functions separate from the apparel division.

2. Succession planning and independent governance build-out

Upon conversion to a public company, SCG will establish its own formal board committees (Audit, Nomination and Remuneration), with the intention of appointing additional independent directors as SCG matures and scales. The transitional shared-resource model is expected to gradually diminish as SCG builds out its own independent corporate governance infrastructure.

3. Arm's-length dealings and conflict-of-interest protocols

Any shared services between PCCS and SCG (such as IT systems or corporate secretarial support during the transition) will be provided on normal commercial terms with proper transfer pricing, consistent with the Companies Act 2016 and applicable regulatory requirements. Directors serving on both boards will recuse themselves from any matter where a conflict of interest arises.

4. Core PCCS leadership remains fully dedicated to apparel

The Group Managing Director, Mr. Chan Wee Kiang, and the Executive Director, Mr. Chan Wee Boon, will remain fully focused on PCCS's apparel business and will not assume executive roles in SCG, ensuring that the core manufacturing business retains undivided senior leadership attention.

In summary, there is limited director overlap at inception, which is both necessary and prudent during the transition period. The Proposed Distribution is intended to provide shareholders with two more focused businesses, each with a clear strategy and capital structure, rather than simply removing a profitable business from PCCS.

SUSTAINABILITY MATTERS

- 3. Occupational Health & Safety ranked first in the Group's materiality assessment. However, total number of lost -time injuries increased from four cases in FY2025 to nine cases in FY2026, while Lost Time Injury Rate ("LTIR ") rose from 0.12 to 0.19, with Wan He Da Manufacturing Company Limited ("WHD") accounting for six cases. (Source: Pages 72 and 96 of AR2026)**

What were the main causes of the increase, particularly at WHD, and what corrective measures have been implemented?



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Main causes of the increase, particularly at WHD:

1. Production volume expansion. WHD and TTAL significantly increased production output during the year, resulting in higher total working hours (9.16 million hours in FY2026 versus 6.66 million hours in FY2025). The expanded workforce and higher machine utilisation increased the statistical exposure to workplace incidents.
2. New workforce onboarding. Rapid hiring to support production growth resulted in a larger proportion of less experienced operators on the production floor, particularly in sewing and cutting departments. Several incidents involved employees who had not yet fully internalised safety protocols, reflecting a need for stronger onboarding and supervision rather than individual negligence alone.
3. Specific incident types at WHD. The six cases at WHD were predominantly machinery-related incidents during material handling and sewing operations, with one slip-and-fall incident in a production aisle. None of the incidents resulted in permanent disability or fatality.

Corrective measures implemented:

1. Mandatory safety refresher training. All machine operators at WHD have undergone mandatory, hands-on refresher training on lockout/tagout procedures, machine guarding, material handling and defensive working postures. New hires now receive extended OHS orientation before being assigned to production lines.
2. Enforced supervision and audits. Local EHS officers have increased floor patrols and conduct bi-weekly safety inspections (up from monthly), with immediate corrective action for identified hazards. Line supervisors are held accountable for safety infractions on their lines.
3. Enhanced engineering controls. Additional automated safety sensors and mechanical guards are being installed on sewing and cutting machines to physically prevent workers from bypassing safe operational limits. Floor markings and anti-slip treatments have been applied in high-traffic production aisles.
4. Formal root-cause analysis. Each lost-time injury is now subject to formal root-cause analysis within 72 hours, with corrective action plans tracked to closure by the OHS Committee and reviewed quarterly by senior management.
5. Worker engagement. Safety briefings are now conducted at the start of each shift, and frontline workers are encouraged to report near-miss incidents without fear of repercussion, to enable proactive hazard identification.

The Group will continue to monitor the effectiveness of these measures and is committed to bringing LTIR back towards FY2025 levels.

4. **Corporate Governance and Anti -Corruption ranked fourth in the Group's materiality assessment. However, only about 28% of senior management completed anti -corruption training in FY2026. (Source: Pages 72 and 77 of AR2026)**



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Why was the completion rate among senior management significantly lower than other employee categories, and what measures will the Group take to improve it?

Reasons for the lower completion rate:

The relatively lower completion rate among senior management, at 28% (5 out of 18), was primarily attributable to significant scheduling constraints and competing business commitments. During FY2026, key management were heavily engaged in major corporate exercises — including the Proposed Ratification and Proposed Distribution — and oversee PCCS's international apparel trading and manufacturing operations across Malaysia, China and Cambodia, which involve frequent overseas travel. The FY2026 anti-corruption training was initially rolled out in structured workshop format, primarily for factory-based employees, with a separate module for senior management offered on fewer dates. Unlike non-executive factory workers, for whom training is organised on-site during working hours, senior management schedules are decentralised and more difficult to coordinate centrally.

Measures to improve the completion rate:

1. E-learning module rollout. A self-paced online anti-corruption training module will be launched in FY2027, accessible via desktop and mobile devices, allowing senior management to complete training at their convenience while travelling or between meetings.
2. Mandatory annual completion policy. Completion of anti-corruption training will be formally included in the annual performance review criteria for all senior management, effective FY2027.
3. Board-level lead by example. The Board will schedule a dedicated anti-corruption briefing at one of its quarterly meetings each year, with attendance recorded, to set the tone from the top.
4. The Group will arrange supplementary training sessions and strengthen its communication and engagement initiatives to facilitate greater participation and improve the training completion rate in the coming year.
5. **PCCS Garments (Suzhou) Ltd. (“SGL”) has renewable -energy measures in place: on - site solar PV and a Solar Power Purchase Agreement (“PPA ”). However , SGL did not achieve its target of sourcing 100% of electricity consumption from green energy in FY2026. (Source: Page 73 of AR2026)**

What was the actual percentage achieved, what caused the shortfall, and when does the Group expect to achieve the 100% target? Also, does the Group plan to extend a similar target to its other manufacturing subsidiaries?

Actual percentage achieved

Based on the Group's records, the portion of SGL's electricity consumption covered by live on-site solar PV generation and the solar PPA in FY2026 was approximately 58%, the balance



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was intended to be offset through bulk green certificates.

Causes of the shortfall

The shortfall was primarily attributable to timing differences in the issuance of bulk green certificates. The portion of electricity demand not covered by the live solar PPA was intended to be offset through the purchase of bulk green certificates. These certificates are purchased in bulk and formally issued at the end of the calendar year; as the certificates had not yet been issued at the time of preparing the Annual Report, the corresponding electricity consumption had not yet been reflected as green electricity. Secondary contributing factors include provincial grid quota allocation processes for expanded PPA procurement and the physical limitation of available rooftop area for on-site PV, which cannot accommodate sufficient panels to cover 100% of consumption.

Expected timeline to achieve 100%

SGL expects to fully achieve its 100% green electricity sourcing target upon the issuance of the relevant bulk green certificates by the end of the calendar year. The Group will continue to expand PPA arrangements and renewable energy certificate procurement to sustain the target thereafter.

Extension to other manufacturing subsidiaries

Yes, the Group has active plans to extend similar targets to other key manufacturing subsidiaries. In FY2027, manufacturing subsidiaries in both Cambodia (WHD and TTAL, with rooftop solar installation scheduled between June and July 2026, expected to offset approximately 25% to 30% of grid electricity consumption) and China (Shandong, which already participates in a solar PPA alongside SGL) are actively installing or expanding solar capacity. Management believes these capital investments will materially increase the Group's direct green electricity consumption over the coming years, aligned with the SBTi-validated emissions-reduction targets for WHD.

The Board and senior management will present the questions raised and the related answers to the shareholders present at the forthcoming 32nd AGM on 27 August 2026, and will be available to address any follow-up questions.

Yours sincerely,

For and on behalf of PCCS Group Berhad

Dr. Tang Lai Huat

Corporate Controller, Mobile # +6012 7940574