CLASSITA HOLDINGS BERHAD
[Registration No. 199601036023 (408376-U))
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED

SUMMARY OF KEY MATTERS DISCUSSED AT THE GENERAL ANNUAL MEETING (AGM) OF CLASSITA HOLDINGS BERHAD (CLASSITA OR THE COMPANY) HELD AT LANGKAWI ROOM, LEVEL 2, MAIN CLUB HOUSE, BUKIT JALIL GOLF & COUNTRY RESORT, JALAN JALIL PERKASA 3, BUKIT JALIL, 57000 KUALA LUMPUR, WILAYAH PERSEKUTUAN (KL) ON MONDAY, 9 DECEMBER 2024 AT 10.00 AM.

1. Classita recently unveiled plans to diversify into property investment and trading business. As part of the strategy, the Company proposed acquiring 18 retail shop units in Kajang, Selangor for RM17 million in May 2024. As of 30 June 2024, the Group had already paid a deposit amounting to RM4.7 million.

Against the proposed diversification, the outlook of Classita's Property Development and Direct-selling businesses remains challenging, notwithstanding the positive bottomline performance of the Manufacturing segment. Furthermore, the Company reported a negative operating cash flow of RM81.5 million at the end of FY2024, a stark decline compared to the positive operating cash inflow of RM48.73 million recorded in the previous year.

Given these considerations, should the Board not focus on turning around existing business segments before pursuing new ventures?

<u>**Answer**</u>

The Group continuously review the performance and business operations of all segments from time to time with the intention of improving the Group's financial performance and position. For manufacturing segment, the Group is actively pursuing market expansion opportunities outside Malaysia to drive revenue growth and diversify its geographical reach worldwide. For property development and construction segment, the Group has put in efforts to revitalize this segment with the intention to initiate development projects such as the Kinta Land and Bentong Project, both of which are in the pipeline.

Following the proposed acquisition of 18 retail shop units, the Group expects the properties to derive rental income or capital gain on the potential value appreciation by selling them when market conditions are favorable. The Group expects that the property investment and trading may contribute more than 25% of the net profits of the Group or cause a diversion of more than 25% of its net assets moving forward.

WISMA CAELY, Lot 2661, 3rd Mile, Jalan Maharaja Lela, 36000 Teluk Intan, Perak Darul Ridzuan, Malaysia
Tel: +605 621 8888 Fax : +605 621 5115, 621 5286
web : www.classitaholdings.com Email: contactus@classita.com.my

2. Classita operates manufacturing facilities in Malaysia and Indonesia, while engaging subcontractors in Myanmar to optimize costs.

a) What are the profit margins for products produced at different manufacturing bases? How do the product range, design, and manufacturing capabilities vary across these locations? Correspondingly, how do the customer profiles and the types of manufacturing activities differ between these bases?

<u>**Answer**</u>

Order allocation to manufacturing facilities is determined primarily by the customer's requirements, which include factors such as design complexity, material type, and material quality. High-complexity orders that demand superior quality and skill typically yield higher profit margins. These orders are assigned to the manufacturing plant in Malaysia, where a highly skilled workforce ensures exceptional standards.

Conversely, lower-margin orders (with less demanding requirements) are directed to facilities with lower operational costs. This includes the manufacturing plant in Indonesia or subcontractors in Myanmar, where labor costs are significantly reduced. This strategic allocation optimizes operational efficiency while meeting diverse customer requirements.

b) PT Classita Indonesia Intimates (PT Classita), a 60%-owned subsidiary of Classita commenced its operations in February 2023.

What was the financial performance of PT Classita Indonesia Intimates after completing a full year of operations in FY2024?

<u>**Answer**</u>

PT Classita Indonesia recorded a loss after tax of RM 442,087 for financial year ended 30 June 2024. The loss is mainly due to low revenue as the manufacturing plant is yet to operate at its full capacity and operating expenses for setting up the factory and obtaining approval for the bonded warehouse during the financial year.

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3. Revenue from the Direct-Selling segment declined substantially to RM221 in FY2024 from RM2.95 million in the previous year (pages 145 – 146, AR2024).

a) What caused the significant decline in sales from the segment?

<u>**Answer**</u>

Revenue for direct selling/retail segment should be RM 18,230. We have rectified the error via an Errata dated 04 December 2024. The decline is due to realignment of resources and efforts within the Group to focus on the manufacturing and property development and construction segments.

b) Given the dwindling and insignificant revenue contribution from the segment, does the business segment remain viable for the Company? Are the cost and efforts spent to maintain the business commensurate with the investment return received?

<u>**Answer**</u>

The Group continuously review the performance and business operations of all segments from time to time with the intention of improving the Group's financial performance and position.

4. External auditor PKF PLT identified the following Key Audit Matters in FY2024 (pages 74 – 76, AR2024):

a) **Net realisable value of inventories of property development costs and completed development units**

The Group has significant property development costs (consisting of land cost) and completed development units amounted to RM68.1 million as its inventories. During FY2024, the Group wrote down inventories of completed development units that amounted to RM459,426.

To which project was the write-down of completed development units attributed?

<u>**Answer**</u>

The write down is related to completed development units for Casamas project located in Hulu Klang, Selangor.

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Additionally, please provide the list of ongoing property construction and development projects undertaken by the Group, along with the progress and status for each project.

<u>Answer</u>

Table below shows the ongoing property construction and development projects undertaken by the Group.

No.	**Name of ongoing property construction and development projects**	**Status**
1.	Tapah Road – budget hotel project Ongoing construction and refurbishment project of a 5-storey budget hotel	95% completion.
2.	Tapah Road – terrace houses project Ongoing construction project of 86 units of 2 storey terrace houses (as well as 2 show houses)	2 units of show house are under construction and is expected to be completed by first half of 2025.
3	Kinta Project Construction of a lightweight industrial warehouse	Target to commence in first half of 2025
4	Bentong Project Mixed commercial and residential development project.	Target to commence Phase 1 in first half of 2025.

b) Impairment of trade receivables

As of 30 June 2024, the Group recorded a total impairment of RM14.4 million against total trade receivables of RM22.36 million.

Meanwhile, during the 12-month reporting period for FY2024, Classita recognised an impairment loss of RM1.48 million (FY2023: RM185,162) on trade receivables (page 113 of AR2024).

Which business segment contributed to the impairment of trade receivables? What are the profile and credit histories of the involved customers? Were the impaired trade receivables concentrated among a few customers? What recovery measures were taken to recover the said amount?

<u>Answer</u>

The impairment of trade receivables is from direct selling/retail segment, manufacturing segment and property development and construction segment involving local and overseas customers. The Company is currently communicating with these parties to resolve on the settlement plans to recover the overdue amount.

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5. In November 2022, Classita acquired a 97.24% interest in Kepayang Heights Sdn Bhd (KHSB) for RM18.5 million. Subsequently, on 15 December 2023, Classita acquired the remaining shares in KHSB for RM100,000, turning KHSB into a wholly-owned subsidiary of Classita.

The acquisition of KHSB was intended to facilitate mixed commercial and residential development projects on a 19.69-acre plot of land in Bentong. However, two years after the acquisition, development on the land has yet to commence.

What factors have contributed to the delay in initiating development for these projects?

<u>Answers</u>

The delay is mainly due to delays in obtaining the necessary approvals from the land office of Bentong District.

Given the prolonged timeline, what financial impacts have the delays had on the Group?

<u>Answers</u>

The Group do not expect any significant financial impact arises from the delay of the project.

6. On 14 July 2023, the Company completed a rights issue exercise, issuing 880.53 million new shares at an issue price of 10 sen each and raising total gross proceeds of approximately RM88.05 million. As of 30 June 2024, RM77.98 million out of the RM83 million spearheaded for Property Development business remain unutilised (page 62 of AR2024).

Among the list of property development projects, which are the projects to be prioritised for utilizing the remaining proceeds?

<u>Answer</u>

The remaining proceeds of RM 77.98 million will be allocated for the property business which mainly for the purposes of Bentong project and Kinta project, and payment for the acquisition of investment property.

7. During FY2024, the Group recorded a write-down of RM1.65 million on the value of finished goods (page 128, AR2024).

What is the ageing profile of these finished goods? What factors contributed to the decline in the value of the goods?

<u>**Answer**</u>

The written-down inventories consist of inventories aged over 2 years. These inventories were written down due to slow moving and being obsolete.

What is the estimated recoverable amount of the written-down inventories? Is there a need to review the existing inventory management policies to reduce the likelihood of a write-down of inventory value?

<u>**Answer**</u>

As mentioned above, these inventories were slow moving and obsolete, and the recoverable amount cannot be determined at this juncture. The Group will explore opportunities to sell these inventories at their highest realizable value.

The Group will continue to monitor inventory turnover regularly to identify slow-moving items. Meanwhile, the Group will enhance forecasting models to align inventory levels with market demand more accurately and to avoid overstocking.

8. In FY2024, Classita recorded a significant increase in energy consumption at 1.32 million kWh compared to 1.09 million kWh in the previous year. Additionally, its energy intensity rose by 7.4% year-on-year (page 38 of AR2024).

Recognising the environmental and operational implications of rising energy use, Classita is actively exploring strategies to reduce energy consumption, improve energy efficiency, and explore renewable energy sources.

a) What specific steps does the Group plan to take to achieve these objectives?

<u>**Answer**</u>

The Sustainability Committee is exploring the viability of various energy consumption savings options such as using renewable energy versus investment cost, and implementation timeline of suitable methods.

b) When does the Group expect to finalise the plan?

<u>**Answer**</u>

Findings and recommendations will be compiled into a report and presented to the Board in a timely manner.

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c) How much capital expenditure will be allocated for the implementation of these measures?

Answer

The capital expenditure has not been determined by the Group at this juncture. However, the Group do not expect significant capital expenditure for these measures.

d) What are these initiatives' anticipated outcomes, both measurable and quantifiable?

Answer

The Group expects the initiatives will improve the efficiency of energy consumption, reduced consumption of electricity, and thus results in reduction of operational cost at least by 1% from the reduced consumption.

9. Classita experienced a turnover of 145 employees, accounting for 38% of the total 382 employees across all employee categories (page 41 of AR2024). Contributing to this high turnover rate were the rural manufacturing plant location and in pursuit of better opportunities elsewhere.

a) Has the Company managed to find replacements for the departing employees? With an exceptional and unusually high turnover, has a massive exodus of employees resulted in production delays?

Answer

Yes, the Company managed to replace majority of the resigned employees. The high turnover did not cause any delays in production.

b) Since the Company has identified the primary reasons behind the high turnover ratio, what improvements should be made to the talent recruitment and retention programme?

Answer

The Company continuously review and provides competitive compensation and benefits package to the employees. Additionally, the Company also identify tailored development programs aligned with employees' specific scopes of work to enhance their skills and career growth.

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10. Waste Management

a) Classita generated 24,133.2 kg of waste in FY2024, primarily composed of discarded fabrics. Unfortunately, due to the absence of recyclers willing to accept mixed fabrics, the waste was disposed of in landfills.

MSWG's comment: The disposal of approximately 24,000 kg of fabric waste, or 99.98% of total waste generated, into landfills was far from an ideal approach to managing production waste. This practice poses considerable environmental harm and underscores the need for more sustainable waste management solutions.

b) Referring to the table on page 45 of AR2024, please clarify what the figures of 3,103.2 kg and 4,200 kg of total waste represent. Do these numbers correspond to FY2023 and FPE2022, respectively? If so, what factors contributed to the significant year-on-year increase in total waste generation?

Answer

Yes, the figures of 3,103.2kg and 4,200kg of total waste correspond to FY2023 and FPE2022 respectively. For financial year ended 30 June 2024, effort was made to quantify waste thoroughly in the manufacturing plant in Teluk Intan, which results in the high disparity with the previous financial year.

11. Out of eight directors appointed to the Board, only five directors - Mr Ng Keok Chai, Mr Krishnan A/L Dorairaju, Datuk Aureen Jean Nonis, Dato' Kang Chez Chiang, and Mr Lester Chin Kent Lake, attended training in FY2024. The remaining directors did not attend any training/seminar during the year as "they considered their business meetings, interactions with various business partners, and engagements through other directorships as adequate for supporting their duties on the Board."

Paragraph 15.08 (2), Chapter 15 Corporate Governance of Bursa Securities Listing Requirements requires directors of listed issuers to undertake continuous training to enable them to discharge their duties effectively.

While business meetings, interactions with business partners, and engagement through other directorships are valuable, they cannot replace structured training programmes designed to keep directors systematically informed about developments in governance, compliance, and regulatory matters – which are crucial skills for directors to perform their fiduciary duties.

The Board must assess the training needs of its members and ensure their participation in relevant professional development and upskilling initiatives.

Answer

The directors had conducted self assessments to determine their training needs and areas for improving their personal skills and knowledge. Nevertheless, the Board and Nomination Committee take note of shareholders' comments and will encourage the directors to attend at least one structured training during the financial year.

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12. Classita stated it has applied Practice 4.4 of the Malaysian Code on Corporate Governance (MCCG), which stipulates that performance evaluations of the board and senior management include a review of their performance in addressing the company's material sustainability risks and opportunities (page 17 of Corporate Governance Report 2024).

a) What metrics were applied to evaluate the Board and senior management's performance in addressing material sustainability risks and opportunities? How did they perform against these metrics?

Answer

The Board and senior management of Classita have adopted a holistic approach to sustainability improvement, emphasizes continuous improvement and responsiveness to emerging sustainability challenges.

Key improvements include:

a) Enhanced Data Management: Establish robust processes for sustainability data collection, verification, and reporting to ensure accuracy and reliability.

b) Capacity Building: Conducting training and awareness sessions for the Board, senior management, and employees to deepen understanding of sustainability risks and opportunities,

c) Stakeholder Engagement: Initiating meaningful dialogues with key stakeholders to ensure alignment with their expectations and to incorporate their input into decision-making processes.

Meaningful sustainability improvements require a phased and strategic approach, given the complexity of the material issues identified. The timeline for implementing these improvements varies in short-, medium- and long-term depending on the scope and nature of the initiatives. For short-term Improvements (0-12 months), The Board and senior management have established new sustainability data collection and management processes and have conducted internal training sessions to raise awareness and build capacity among employees and management.

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b) What was the weightage of sustainability-related KPIs (by percentage) vis-à-vis operational and financial metrics in the overall evaluation of senior management?

<u>**Answer**</u>

As the company embarks on its sustainability journey, there is no specific sustainability-related KPIs for the senior management in financial year ended 30 June 2024.

c) Classita explained on page 17 of CGR2024 that for FY2024, "the directors including senior management performed their duties in addressing sustainability issues and they had made concerted efforts in driving positive impact on ESG factors."

However, we noted that Classita recorded higher energy consumption and intensity, high levels of staff turnover, and significant waste generation and disposal to landfills. Considering these observations, what specific positive ESG impacts were achieved by senior management?

<u>**Answer**</u>

The increase in electricity consumption is primarily driven by higher production demands and extended operating hours required to meet customers' delivery schedules. While revenue has grown alongside increased production, the rate of growth in revenue has not kept pace with the rise in electricity consumption. This disparity has led to an increase in the company's energy intensity.