

23 November 2022

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

Level 23, Unit 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Attention: **Mr. Devanesan Evanson**
Chief Executive Officer

Dear Sir,

Re: 12th Annual General Meeting of Pecca Group Berhad

We refer to your letter dated 3 November 2022 and are pleased to answer the points you have raised in the interest of minority shareholders and all other stakeholders of the Group.

Operational & Financial Matters

1. On 12 January 2022, Pecca Leather Sdn Bhd has entered into a Sale and Purchase Agreement with UMW Development Sdn. Bhd. for the acquisition of a 4.31 acres land in Serendah, Selangor for RM8.45 million. The transaction has been completed on 28 June 2022. The company intends to build and construct its second manufacturing facility, which will double the Group's capacity once the factory is completed at the end of 2023. (page 20 of Annual Report (AR) 2022)
 - (a) What is the total capex for this new plant? Please provide the breakdown of the capex. (e.g. construction cost for new factory, purchase of new machineries, working capital etc)

These are estimates only and may change depending on final quotation and variation orders and it excludes the cost for the interior design:

	RM'000
Construction cost	20,000
Purchase of new machineries	10,000
Working capital	10,000

- (b) What is the total production capacity for this plant? What is the expected utilization rate after one year of operations? When do you expect to run at optimal capacity?

Upon completion by the end-2023 calendar year, the Group's production capacity will double to approximately 40,000 seats per month, as compared to approximately 20,000 seats per month in our current factory.

The expected utilisation rate after one year of operations is approximately 80% by end of 2024.

It is expected to run at optimal capacity in the second half of 2024.

2. With the extension of sales tax exemption for passenger cars until 31 March 2023, the Group foresees and is confident that the revenue for FY2023 will be strong. (page 21 of AR 2022)

With the recovering economy and solid orders for automakers, Pecca is confident the demand will continue to grow for FY2023. (page 30 of AR 2022)

- (a) What is the Group's targeted revenue growth for FY2023?

With the strong TIV (Total Industry Vehicle) of 630,000 in 2023, we would be aiming to achieve more than 20% growth for the Group's targeted revenue for FY2023.

- (b) As mentioned on page 27, the utilisation rate for the automotive operations was around 80% in 2QFY2022 and close to 100% in the subsequent quarters of FY2022. How do you plan to fulfill a stronger demand in FY2023?

Pecca has increased to 2 production shifts to double the production hours in order to cope with the increase in volume since 2QFY2022. As such, it is imperative we accelerated the expansion plans of our 2nd factory in Serendah which targeting to be completed before the end of year 2023.

3. The healthcare segment focuses on OEM facemask manufacturing and distribution of healthcare products. The segment's revenue declined 8.6% to RM16.39 million in FY2022 due to the gradual relaxation of COVID-19 control measures in line with the re-opening of the economy. (page 26 and 30 of AR 2022)

- (a) What is the current production capacity and utilisation rate for the facemask manufacturing? How much have the Group invested in this business since inception?

For the facemask manufacturing: -

Current production capacity: - 27 million pieces per month

Utilisation rate: - Approximately 15%

The Group has invested RM6 million in the healthcare segment since its inception.

- (b) What is the outlook for the healthcare segment in FY2023?

As Malaysians return to their normal lives for work and leisure in indoor settings, face masks remain important for our health and safety. Consumers will still be cautious and continue wearing masks, not only for the pandemic but for overall protection against viruses.

The Group has continuously enhanced the quality and design of its facemasks for better value for money and stylish as the fashion for customers to be the preferred brand. The Group expects the demand for personal protective equipment (PPE) products to sustain as medical-grade masks and other mask varieties will continue to be a necessary part of daily life for much of the foreseeable future in view of people being more health and safety conscious post-pandemic. Although the government has relaxed rules for using face masks, it is still strongly encouraged to wear face masks, especially in crowded areas.

4. The revenue contributed by the aviation segment is immaterial in FY2022. However, the Management is positive and confident that revenue contribution from this segment will increase handsomely with the re-opening of international borders, as more aircraft will require refurbishment work and services. The Group believes that it is still largely an untapped market as there are fewer players in the segment. Therefore, it is a lucrative business opportunity where the Group will be able to price its leather seat covers strategically. (page 30 of AR 2022)
- (a) Who are the key players in this segment? How is Pecca going to compete with these players?

With more than twenty years of wealth and extensive upholstery specialist experience, Pecca offers various products, designs, and a mix of materials to match different market requirements. Pecca has the competitive advantage in the upholstery seat covers market.

Moving forwards, Pecca will focus more on the aviation segment as it will provide higher margin as compared to the conventional automotive segment, which target to contribute to the group's revenue upon obtaining approval from the European Aviation Safety Agency (EASA) certification.

- (b) What is the potential revenue for this business segment?

Pecca will further expand the aviation business, which targets to provide upholstery and refurbishment for domestic and overseas registered aircraft. This will be another key revenue driver for Pecca going forward. The aviation segment is a lucrative business for Pecca as its margins are much higher than the conventional automotive segment

Pecca targets to finalise the approval from the European Aviation Safety Agency (EASA) to allow the group to supply leather seats to non-Malaysian registered aircraft, especially commercial flights. Currently, Pecca is only serving Royal Malaysian Air Force, Military and private jets.

Yours sincerely,



Foo Ken Nee
Chief Executive Officer