



CLASSITA HOLDINGS BERHAD

Registration No. : 199601036023 (408376-U)

**CLASSITA HOLDINGS BERHAD
(FORMERLY KNOWN AS CAELY HOLDINGS BHD.)
[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) CONDUCTED VIRTUALLY ON TUESDAY, 28 NOVEMBER 2023 AT 10.00 AM

1. Dato' Pahlawan Mior Faridalathrash Wahid was redesignated as an executive director of Classita on 11 April 2023 after two former EDs left the board.

With the redesignation, Classita is run by three executive directors: executive chairman Mr Ng Keok Chai, ED Datuk Kuan Poh Huat and Dato' Pahlawan Mior Faridalathrash.

- (a) Please elaborate and explain the respective roles and duties of the three EDs in managing the day-to-day operation of Classita.

Answer

Mr Ng Keok Chai is the Executive Chairman of Classita. He is responsible for the management, the development and effective performance of the Board, and provides leadership to the Board for all aspects of the Board's work. Datuk Kuan Poh Huat is the Executive Director in charge of operations matters specifically in the property development and construction segment. Dato Pahlawan Mior Faridalathrash is the Executive Director advising on the Group's legal matters and overseeing the risk management of the Group.

- (b) The date of appointment of Dato' Pahlawan Mior Faridalathrash was wrongly stated on page 38 of the Annual Report 2023. It should be 27 September 2022, not 27 September 2023 as stated in the report.

Answer

We note on your feedback and have rectified the errors via an Errata dated 24 November 2023.



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2. Forensic auditor Virdos Lima Consultancy (M) Sdn Bhd was appointed in April 2022- to carry out an independent forensic audit on allegations of suspicious and irregular transactions at Caely (M) Sdn Bhd (Caely M), a wholly-owned subsidiary of Caely.

On 23 October 2023, Virdos Lima submitted an investigation report to Classita. In a reply to Bursa Malaysia's query dated 25 October 2023, Classita said the forensic report revealed that there were *'irregularities concerning Caely-M's transactions with certain parties comprising of a series of questionable transactions, potential concealment of financial interests, and conflicting relationships, which undermined the transparency and credibility of the Company's financial disclosure'*.

The matter is currently pending litigation before the Court.

- (a) Based on the findings of the forensic report, what weaknesses resulted in the said irregularities in certain transactions, conflict of interests and corporate governance issues?

What has the Board and Management done to address the weaknesses or issues identified in the report?

What recommendations (if any) were provided by Virdos Lima to strengthen Classita's risk management framework? Have these recommendations been accepted for implementation? Which are the recommendations which have not been accepted, if any?

Answer

Virdos Lima's engagement was mainly fact-finding and does not encompass recommendations on weaknesses of internal control.

The Board will engage with its internal auditors to identify the weaknesses and also reassess any weaknesses in its internal control procedures on the transactions involved as well as to improve on the weaknesses, where required.



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- (b) Classita said that the amount due from relevant parties highlighted in the investigation report had been fully impaired in the financial statements of the Group in prior financial years.

To what does the impaired amount relate to? How much in total was impaired by Classita previously? How likely is the recoverability of the impaired amount? What are the avenues available to recover the said amount?

Answer

The amount owing was balance outstanding in relation to a construction of houses and shops project in Perak. The total amount owing by the relevant parties was approximately RM2.27 million and was fully impaired. The Board is currently in communicating with the parties to resolve on a settlement plan to recover the debts. The Board may take legal action, if necessary.

3. The Manufacturing division turned loss-making in FY2023 with pretax losses of RM1.85 million compared to pre-tax profit of RM7.27 million in the previous financial period. Revenue for the respective financial year/period was RM44.3 million and RM70.46 million, respectively.

- (a) What contributed to margin erosion in the Manufacturing segment?

Answer

The pre-tax margin in the Manufacturing segment declined mainly attributed to a decrease in revenue. The decline stems from lower sales orders received from existing customers and the loss of several contract customers. The decrease in gross profits resulting from the revenue reduction were inadequate to cover the administrative and other operating expenses.



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- (b) Classita said the lower revenue from the Manufacturing segment was due to lower demand from its overseas customers. Was this a result of the Division losing its edges over countries with more competitive cost structures, such as Bangladesh and Vietnam?

How effective is the strategy of subcontracting works to countries with lower labour costs? How much revenue did the lingerie manufacturing JV in Indonesia contribute to the Group?

Answer

The Group's revenue decreased mainly due to lower demand from its overseas customers, a result of weak market sentiment. The Group acknowledges the competition its faces from neighbouring countries with low-cost structures that can offer competitive prices.

To maintain competitiveness in the industry, the Group has taken initiatives to subcontract works to countries like Myanmar and Indonesia, aiming to lower production costs and mitigate the erosion of margins. This subcontracting strategy is newly implemented, and the Group anticipates the profit margins could be upheld, expecting positive results in the near term.

PT Classita Indonesia Intimates ("PT Classita") is a 60% owned subsidiary of Classita and contributed approximately RM0.69 million in revenue to the manufacturing segment during the 5 months period of the financial year ended 30 June 2023. PT Classita was newly incorporated in December 2022 and commenced operations in February 2023.

- (c) About 70% of revenue for the Manufacturing segment in FY2023 came from the German market.

What is the outcome of the efforts to diversify the customer base to countries such as Turkey, Japan, and France?

Answer

The Group has recently secured orders from new customers in Turkey and France and is currently in communication with potential customers in Japan.



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4. The Property Development and Construction segment recorded a negative revenue of RM2.46 million due to the revocation of the sale of 10 units of shophouses.

Meanwhile, the division incurred a pre-tax loss of RM6.24 million due to impairment losses recognised for property development costs of RM7.82 million.

- (a) Why did the buyers revoke the purchase of the said properties in FY2023? Was there any penalty imposed against the buyers like forfeiture of deposits involved in the revocation?

Answer

The sales were revoked as the buyers were unable to make any payment and resulted the Group with long outstanding debts. This is part of the Group's efforts to recover the debts. After the revocation, the Group is able to look for other potential buyers with good financing standing for the said units. There were no penalty imposed against the buyers as part of the settlement.

- (b) Due to the revoked sales agreement, Classita recognised a reversal of the impairment of trade receivables amounting to RM5.31 million in the current financial year.

Why were the relevant trade receivables reversed when the purchase of these properties was revoked? Please explain the accounting treatment of reversing the impairment of these trade receivables.

Answer

The sale of these properties were initially recognised as revenue, and the corresponding entry was debited to trade receivables. Subsequently, the trade receivables were impaired due to their long outstanding status. When the sales were revoked, the entries were reversed accordingly, debiting revenue (i.e. negative revenue amount) and reversing the impairment loss on receivables.



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- (c) The Board wrote down property development costs amounted to RM7.82 million in FY2023 (FY2022: nil) (page 107 of AR2023), resulting in a wider segmental loss of RM6.24 million compared to RM5.35 million in the previous 15-month financial period ended 30 June 2022.

The division would have been profitable if without the inventories write-down.

To which property project does the write-down in property development cost relate to? Where is the property project located? What circumstances led to a lower net realisable value than the project's estimated cost of sales?

Answer

The property project write-down in property development cost was related to Taman Universiti Wallagonia, Tapah Road, Perak.

The property project is located at Tapah Road, Perak.

The net realizable value of the property development costs is determined based on valuation assessment performed by an independent valuer after taking into consideration, amongst others, location, size, market conditions and condition of the property. Therefore, the costs were written down accordingly.

5. In November 2022, Classita expanded its property development and construction activities via acquisitions of stakes in Kepayang Heights Sdn Bhd (KHSB) and Longhorn Capital Sdn Bhd.

At the same time, Classita's wholly-owned subsidiary Caely M, is involved in similar business activities and is a registered Grade G7 contractor with CIDB.

- (a) Is Caely M actively bidding for construction projects to diversify its revenue streams that rely heavily on the Manufacturing segment?

Answer

The Group has recently secured a refurbishment project in Taiping as a result of its strategic initiatives to revive the segment and will continue to pursue new projects. Nevertheless, the Group is prioritising its resources on the ongoing projects, namely Kinta Land and Bentong project, while also assessing the possibilities of reviving the development in Tapah, Perak.

- (b) What is the progress in the launching of the mixed commercial and residential development projects on the 19.69-acre Bentong land owned by KHSB? Is it now timely to launch the project?

Answer

The Group has obtained consent for Izin Lalu Tanah Kerajaan from Pejabat Tanah Daerah Bentong. However, approval/consent for Izin Lalu Tanah Rizab from Pejabat Hutan Daerah Bentong is still pending. The project team is currently in the process of preparing other relevant applications. Due to pending approvals from the relevant authorities, the project is experiencing a slight delay and is expected to commence in the first half of 2024.

6. Classita will seek shareholders' mandate for recurrent related party transactions (RRPTs) (Resolution 9) in this meeting. The related parties involved are Madam Chan Swee Ying, Ingenieur EPCM Sdn Bhd (IESB) and Ingenieur Gudang Berhad (IGB). The total estimated aggregate value for the RRPTs is RM100 million per annum. (page 8, Classita's Circular dated 31 October 2023)

IESB is a wholly-owned subsidiary of IGB principally involved in construction works, including civil, structural, building, architectural and mechanical works.

- (a) Since Caely M is a registered Grade 7 contractor with CIDB, Classita appears to have the in-house capabilities to carry out civil engineering, mechanical and electrical works.

Hence, why does Classita seek shareholders' mandate to enter RRPT with IESB, which carries out similar business activities as Caely M? How different are the services provided by IESB compared to Caely M and other independent contractors?

Answer

The Board acknowledges that Caely M and IESB engage in similar business activities. Given the limitations of resources and the Group's current focus on going projects, some of the Group's projects will be sub out to other sub contractors. The Board recognises that, in the event of potential projects, the Group can leverage IESB or other sub contractors to bid for larger opportunities.



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- (b) Madam Chan ceased to be a Major Shareholder of Classita on 14 July 2023. As of the latest practicable date of 19 October 2023, she does not hold any shares in the Company, direct or indirectly (page 11 of the Circular).

Why does Classita insist on seeking shareholders' mandate for this RRPT since Madam Chan already ceased to be a shareholder of the Company? What benefits do the RRPTs offer the Group, as IESB and Caely M share similar expertise?

Answer

According to the Listing Requirements of Bursa Malaysia Securities Berhad, Madam Chan is considered a major shareholder of Classita within the preceding 6 months of the date on which the terms of the transactions were agreed upon. The Group seeks shareholders' mandate to avoid missing any opportunities on securing new projects as mentioned in (a) above.

7. The Group has been making losses for the past 4 financial years. What are the measures put in place by the current Board to turnaround the Group?

Answer

The Group has implemented comprehensive strategic measures to turnaround our business. We initiated a rigorous cost-cutting initiative and streamlined our production process to improve our profitability. Additionally, we are continuously seeking to penetrate to other countries for our manufacturing segment and has secured new customers in Turkey and France. The cost reduction initiative are also evident through the establishment of new subsidiary in Indonesia to reduce manufacturing costs.

To bolster our financial position, the Group has acquired new development locations, aiming to grow our property development and construction segment. This includes the initiation of the Bentong Project and the development of Kinta Land to improve our revenue streams.

The Group has continuously undertaken measures to improve our financial performance and strengthen our financial position. We anticipate that these efforts will contribute to and enhance our Group's performance in the forthcoming financial years.



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8. Property Development segment – Could the Board please further explain regarding the revocation of units sold?

(a) Which project are such units related to?

Answer

The revocation of units sold is in respect of the development project at Taman Universiti Wallagonia, Tapah Road, Perak.

(b) How much compensation that the Group received arising from this revocation?

Answer

As a part of the settlement, there was no compensation received from this revocation.

(c) Are the units in concern being completed units?

Answer

Yes, these revocation units were the completed units.

(d) Any further revocation of units happened after the financial year end?

Answer

No, there is none revocation of units after the financial year end until to date.



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9. May I know what is the company's future outlook?

Answer

The Group remains positive amidst weak market sentiment and operational challenges, optimistic that consumer spending will increase thereby strengthening our order books in the coming quarters. The Group has been continuously securing orders from its existing established customers mainly from Germany, Canada and USA while also successfully acquiring new customers in Turkey and France . The Group remains persistent in its efforts to diversify into new markets, and with the Group's initiatives to maintain low cost structure, it can maintain a competitive position in the market, providing stability amid prevailing economic uncertainties.

In the property development and construction segment, the Group has recently secured a refurbishment project in Taiping as a result of its strategic initiatives to revive this segment. The Group is diligently working towards initiating development projects such as the Kinta Land and Bentong Project, both of which are in the pipeline.

Moving forward, the Board remains committed to managing the business with diligence, exercising caution in its approach, and exploring opportunities cautiously. To navigate challenges in the manufacturing and property development industry, the Board will continue to monitor market conditions closely, taking into account customer preferences, as well as supply and demand dynamics. The Board's commitment lies in fostering sustainable development and creating value for stakeholders within the evolving business environment.

10. How much is the auditor fees?

Answer

The auditor fees were approximately RM222,000 as shown in page 46 of the Annual Report 2023.



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11. Which sector is making profits and which area is making losses?

Answer

The results of each segment of the Group is reported in Page 122 - Note 33 to the financial statements as at 30 June 2023 of Annual Report 2023.

For the current financial year ended 30 June 2023, all segments are making losses.

12. Will the Board consider giving door gifts such as e-voucher or e-wallets or refreshments for those participating in this AGM as a token of appreciation?

Answer

We will take note of this. However, the Board is currently prioritising the allocation of the Group's resources to its core business.

13. How much this virtual meeting cost compare to physical meeting?

Answer

Virtual meeting cost is lower by approximately 35% as compared to a physical meeting.



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