

Date: 17 December 2024

Badan Pengawas Pemegang Saham Minoriti Berhad
Level 23, Unit 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

By Hand/ Email
cianyai@mswg.org.my

Attention: Dr. Ismet Yusoff

Dear Sirs,

**RE: 56TH ANNUAL GENERAL MEETING (AGM) OF SCIENTEX BERHAD
("SCIENTEX" OR "THE COMPANY") TO BE HELD ON WEDNESDAY, 18
DECEMBER 2024**

We refer to the above and to your letter dated 13 December 2024.

We are pleased to forward hereinbelow the Board's reply to the queries raised in your letter.

For ease of reference, the questions raised are reproduced herein as follows:-

Operational & Financial Matters

1. Scientex reported a 3.95% increase in sales volume to 266,650 MT compared to 256,510 MT in the previous year (page 61 of Integrated Annual Report (IAR) 2024). However, revenue was marginally lower at RM2.59 billion against RM2.63 billion previously, suggesting that product selling prices faced downward pressure during the year.).

- a) The Consumer Packaging segment reportedly experienced a decline in demand during FY2024, in contrast to the improved demand for Industrial Packaging.

What were the primary factors contributing to the slowdown in Consumer Packaging demand? How have the average product selling prices and sales volume in the segment changed year-on-year? What are the breakdowns of sales volume and revenue of the two segments?

- b) Overall, what was the Group's production volume in FY2024? Additionally, what is the average capacity utilisation rate across its 18 manufacturing plants? Additionally, how did Scientex's Phoenix, Arizona manufacturing plant perform operationally and financially in FY2024?
- c) Has there been any demand recovery for the Consumer Packaging division? What are the anticipated catalysts for stronger financial performance in both segments in FY2025?

- d) We noted that the Packaging division's operating profit rose 18.5% to RM218.0 million, driven by a favorable product mix and improvements in operational efficiencies.

What specific product mix is the Group referring to? In addition, what are the examples of operational efficiencies achieved in FY2024?

Reply:

Consumer Packaging recorded lower sales due to softer demand and market oversupply. FY2024 revenue was affected by declining selling prices following lower raw material prices. The revenue is nearly equal whereas industrial packaging sales volume is higher.

The Group's production volume in FY2024 was consistent with sales achieved, while the average utilisation rate stood at 58%. Our Phoenix, Arizona plant has shown improvement in production volume and is profitable.

Market conditions remain challenging. Demand for consumer packaging is present however it is highly competitive. We are actively addressing these challenges by enhancing market outreach and leveraging innovative solutions. Anticipated catalysts for FY2025 include product innovation, operational efficiencies, and the ability to meet evolving customer demands.

The improved product mix are mainly from the better margins achieved from industrial packaging products during the year. In FY2024, we enhanced efficiencies through several initiatives such as installing rooftop solar PV systems, automation and adopting energy-efficient equipment.

2. Six out of Scientex's 18 manufacturing plants have received ISCC Plus certification with the Pulau Indah plant having secured the Global Recycled Standard (GRS) certification (page 84 of IAR2024).
- a) What value have the ISCC PLUS accreditation and GRS certification added to the Company?
 - b) How do ISCC PLUS accredited plants differ from non-accredited ones in terms of manufacturing capability, processes, and types of products?
 - c) Does the Group plan to get the rest of the plants accredited and/or certified? Please share the cost and investments of getting accredited and/or certified.

Reply:

ISCC PLUS accreditation and GRS certification provide traceability and verification of recycled resin throughout the supply chain, ensuring the credibility of sustainability claims. These certifications offer assurance to our customers regarding the recycled resin used in the production of specific flexible plastic packaging, meeting market demand and enhancing our opportunities to enter new markets.

ISCC PLUS accredited plants are required to track and document the flow of recycled materials throughout the production process and implement systems to segregate certified

and non-certified materials during production. Training is also provided to our staff to ensure full compliance with these requirements.

The cost and investment required for accreditation depend on the existing processes at each plant. We will assess the need for accreditation of the remaining plants based on customer requirements and market demand.

3. The Property Division posted a 29.7% increase in revenue to RM1.9 billion in FY2024, coupled with a 27.8% rise in operating profit to RM518.5 million (page 67 of IAR2024).
 - a) With a total landbank of 7,299 acres as of 31 July 2024 (page 68 of IAR2024), which region will be the key focus in FY2025? How many units are planned for launch, and what is the collective gross development value of these upcoming launches? Subsequently, what are the targeted sales for FY2025?
 - b) What are the current unbilled sales? Besides, what is the take-up rate for ongoing projects?

Reply:

All four regions (i.e. Northern, Central, Melaka, and Johor) will remain key focus areas for our Property Division in FY2025. We are targeting the launch of 8,000 units of properties in FY2025, an increase from 6,300 units launched in FY2024. The GDV of these launches will depend on the product mix and market dynamics. The division is poised for growth in FY2025, supported by a robust pipeline of planned launches.

As at 30 November 2024, unbilled sales stood at RM1.7 billion. The average take-up rate for projects launched in FY2024 was nearly 90%.

Sustainability Matters

1. Being a large market capitalisation PLC, does Scientex plan to set any decarbonisation roadmap which includes considerations such as Scope 1 and Scope 2 emissions reduction, carbon neutrality, and Net Zero emissions?

Additionally, are there any targets set for the reduction of energy consumption, water consumption and waste generation? If not, why was there no target set for the sustainable matter mentioned above?

Reply:

Currently, we do not have specific targets in place. We are gathering the required information in ensuring the completeness of our GHG inventory, including Scope 3 emissions and are actively working towards reducing our carbon footprint.

2. Flood Risk

- a) Referring to the United Nations Sustainable Development (SDG) Goal 11 (page 29 of Sustainability Report 2024) – make cities and human settlements inclusive, safe, resilient and sustainable, what are the principles adopted by the Company to develop floodproofing and flood resilient development?

How prevalent is flood risk being incorporated into the planning and construction of properties? What are the assessments done at the pre-and post-development stages if the project sites are susceptible to different types of flood risks?

- b) On the other hand, was flood risk assessment undertaken across Scientex's flexible plastic packaging manufacturing plants to better safeguard its assets, as well as understand the potential financial impact of such an event on the Company? If yes, which are the sites that are more prone to flooding, as well as the mitigation measures taken to increase their resilience against flooding risk?

Reply:

Flood risk considerations are integral to both the planning and construction stages of our developments. We work closely with the local authorities to ensure that our developments align with national flood management strategies. Comprehensive assessments are conducted, and necessary mitigation plans are implemented to ensure resilience against varying flood risks.

Risk assessments are conducted for all locations, and we have implemented several flood mitigation measures to strengthen resilience. Given the unpredictability of today's weather, we will continue to monitor closely.

Corporate Governance Matters

1. In reference to Practice 5.9 of the Malaysian Code on Corporate Governance (MCCG), which recommends that boards comprise at least 30% women directors, Scientex has set a timeframe of three years to apply this Practice (page 31 of Corporate Governance 2024). However, we observed that the Company has consistently set the same three-year timeframe in its explanation for the departure from this Practice in Corporate Governance Reports 2022 and 2023.

Should the timeframe for achieving this target not decrease over time to reflect progressive implementation? As FY2024 marks the third year of the proposed timeframe (since it was first mentioned in CGR2022), what tangible progress has been made toward meeting this goal?

Reply:

Whilst observing MCCG's recommendation, the Board is committed to search for a suitably qualified candidate who possess technical and commercial skills to bring different perspectives to the board.

2. In addition, Scientex also imposed a three-year timeframe since FY2022 to apply Practice 6.1 of MCCG which recommends Large Companies like Scientex to engage an independent expert at least every three years to facilitate objective and candid board evaluation. Presently, the assessment of board and directors' performance was conducted by the Nomination & Remuneration Committee (NRC) through peer and self-assessment methodology using questionnaires (page 33 of CGR2024).

Similarly, should the timeframe for achieving this target not decrease over time to reflect progressive implementation?

Moreover, appointing an independent expert could enhance the overall objectivity of the evaluation of the board and directors' performance.

Reply:

The Board acknowledged the recommendation in Practice 6.1 in the MCCG. The Board will bring this to the Board discussion.

3. Having considered the Nomination & Remuneration Committee's evaluation, the Board is satisfied that the Directors and senior management possess the necessary skills and expertise and have sufficiently discharged their duties and responsibilities efficiently in addressing the Group's material sustainability risks and opportunities during FY2024 (page 20 of CGR2024).
- a) What specific sustainability considerations were incorporated into the Board's performance evaluation? How did the Board perform in terms of the governance and management of sustainability matters?
- b) How was senior management assessed in this regard? Were there any KPIs assigned to evaluate their sustainability efforts? Additionally, what is the breakdown of sustainability-related metrics versus operational and financial metrics in terms of weightage?

Reply:

The Board evaluation assesses the Board's knowledge on the material sustainability matters relevant to the Company and business and its responsibilities in sustainability governance.

The Group believes that sustainability should be embedded within its business operations. Therefore, sustainability metrics are evaluated as part of operations due to their interconnected nature. The management team is accountable for the sustainability matrix and data as disclosed in the Sustainability Report 2024.

We trust that we have adequately replied to your queries raised therein. On behalf of the Board, we thank MSWG for raising the questions in the interest of all parties.

Yours faithfully,
For and on behalf of the Board of Directors


LIM PENG JIN (Mr)
MANAGING DIRECTOR