PADINI

18th November 2015

Chief Executive Officer
Minority Shareholder Watchdog Group

**Attn : Quah Ban Aik – Head, Corporate Monitoring**

**RE : 34th AGM of Padini Holdings Bhd**

Issues raised by the MSWG as per your fax dated 13 November 2015.

**Strategy/Financials**

Q1.
As reported in the Chairman Statement, does the group intend to explore digital technology in the near future? Please share on its plan, targets and resources including estimated capital expenditure for the Group to leverage on the technology platform within the next 2 years?

Answer
Padini has been engaged with digital technologies such as Facebook, Twitter, Instagram and Youtube since year 2009. Padini has been actively posting product offerings, campaign shoots and videos and other announcements through these channels and actively engaging with customers' responses and requests.

We have launched our e-commerce website under www.padini.com on 11.11.15. The ecommerce store will be featuring every brand under the Padini group. The website currently has over 5700 SKUs featured in it. We will explore different digital campaign ads such as Facebook advertising and Google SEO to improve the site's awareness to our customers.
Padini has 26 employees maintaining and servicing all the digital operations mentioned above. We expect this to increase as the pace of activities in the online store escalates. We have invested approximately RM500k to develop the systems and to acquire the required hardware for our e-commerce store although it is expected that more investments will have to be made in future to further enhance the online shopping experience.
The online store can be seen as the first phase and currently the store only serves the Malaysian market. The expertise to run such a store with all its attendant demands, requirements and issues will have to be learnt. At the same time, we will also explore those areas where online shopping can be enhanced by leveraging on our physical stores to prepare for a time when customers can move easily between the two channels. These activities alone should occupy us for two years.

How does the Board perceive the increasing competition with more online retailer players entering the market and selling almost similar products?

Answer
All players in the apparels and footwear retail subsector, whether online or operating brick and mortar

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establishments or having both, will definitely sell similar product ranges. The entry of e-retailers merely meant that another distribution channel has been created and competition for the consumers' wallet has further intensified. In this we are guided by the understanding that there will always be competition and to stay competitive, we will always have to focus on how to deliver value to those we serve.

How would the Board be able to make the Company different from other players and outperform them?

Answer
Our ability to thrive despite the competition has been built upon our continuous engagement with our customers and the will to do the needful to remain relevant to those whom we serve. Our difference is that we offer larger product categories, serve more diverse market segments, and have a larger distribution network both in size and geographical spread.

Q2
What were the reasons for the Group's administrative expenses to increase from RM57.4 million in FY2014 to RM 62.7 million in FY2015 (see page 52)?

Answer
The Group's administrative expenses increased from RM57.4million in FY 2014 to RM62.7million in FY 2015, a total of RM5.3million (9.2%). A large part of this increase had resulted from the expansion in the Group's business. To cope with the increase in business and the larger number of stores in operation during the FY 2015, support services covering marketing, merchandising, design, logistics, and IT had also increased in tandem.

Q3
We noted that inventories write-off (Page 56) amounted to RM3.9 million in FY2014 compared to RM1.9 million in FY2015. Could the Board explain the reason for the write-off of inventories?

What measures have the Board taken to ensure that written-off of inventories is effectively controlled and minimized in the future?

Answer
The increase in the inventories written off in FY 15 over that done in FY 14 is mainly because of the GST implementation in 2015.
Pending the GST implementation, the Group had undertaken a comprehensive and thorough exercise to identify all stocks that are ready for markdowns or write-offs with the intention of offering them for sale before the GST in several fairs that already have been planned earlier. The intention here was of course to avoid carrying unnecessary amounts of old and slow-moving stocks beyond the GST deadline and making such goods even more unattractive. Due to the objective of the exercise, considerably more stocks were tagged for early disposal than usual. After the fairs were done, whatever that remained that were deemed unsaleable were then written off immediately to avoid having to pay the GST on them if written off after 1st April 2015.
Inventory write-offs are inevitable. The sums involved can be minimized via more astute buying practices, better management of the inventory, and an improved understanding of the trends and the preferences of our consumers. Given the increased volume of purchases made progressively, it is expected that the

absolute value of write-offs will increase. Since we deal with fashion and trends, there is always the likelihood of larger than expected write-offs either when trends change abruptly or when designers misread the trends.

Q4
The Group plans to increase the number of Padini Concept Stores and Brands Outlet stores in FY2016.

(i) What is the total capital expenditure budgeted for the expansion and the strategy against its competitors?

Answer
Padini has made plans to open 16 stores in FY 16 with a gross floor area of about 250,000 square feet. The capital expenditure for fit-out, hardware and software should be in the region of RM40 million. The strategy remains the same. Reach out to the customers, make ourselves useful to them, deliver value, and respect them.

(i) What are the major risks that the Board expects to face for FY2016?

Answer
A continuously weakening ringgit and the problems that come with that.

**Corporate Governance**

Q1. We would like to encourage the Board to have a dividend policy and disclosing it in the Annual Report.
Q2. Publishing the Memorandum & Articles of Association on the Company's website in line with the spirit of transparency and good corporate governance based on the ASEAN CG Scorecard which is being used to assess the level of CG standards of PLCs in Malaysia by MSWG.

Answer
The Board will discuss the above two issues and decide accordingly.

We hope that the above responses have adequately addressed the points raised in your letter to us.

Thank you.

Yours sincerely

**CHAN KWAI HENG**
On behalf of the Board
PADINI HOLDINGS BERHAD