



13 December 2022

MR. DEVANESAN EVANSON

Chief Executive Officer

MINORITY SHAREHOLDER WATCHDOG GROUP (“MSWG”)

Tingkat 11, Bangunan KWSP

No.3, Changkat Raja Chulan

Off Jalan Raja Chulan

50200 Kuala Lumpur.

Dear Sirs,

**RE: 24th ANNUAL GENERAL MEETING (“AGM”) OF JAYCORP BERHAD
 (“JAYCORP”).**

We refer to the above and to your letter dated 6 December 2022.

We append below the answers and reply to all the issues raised: -

Operational & Financial Matters

- 1) The furniture segment remains the Group’s core business. The increasing production costs (especially raw material and labour cost) and sluggish orders from customers faced by the Group may affect the financial performance of this segment (page 20 of AR 2022).
 - a) Please provide some key insights into why the furniture industry is experiencing sluggish demand. Based on your industry outlook, how much of a decline in orders (in percentage terms) are you expecting in FY2023?

Response:

The Furniture Segment in the Group is experiencing sluggish demand from its customers, especially in the US market due to high inventory levels at our customers warehouses. This is likely a result of previous stock accumulation due to uncertainties related to global logistics and supply chains. Furthermore, consumer spending habits have likely been impacted by the reopening of borders and easing of COVID-19 restrictions. At this juncture we will not be issuing any projections on the percentage decrease in orders as actual results and future events could differ materially from our current expectations. The company expects to remain profitable in FY2023.

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- b) Has the Group experienced an industry down-cycle such as the current one? If so, how different are the challenges in this cycle compared to those in the past? When do you expect to see a recovery in demand?

Response:

The Group has experienced many different business and economic cycles over the years, each presenting their own set of unique challenges and opportunities. This current cycle is unique as we see more geopolitical uncertainties that are affecting global trade overall. Moreover, consumer spending habits and behaviours have seen major changes because of the COVID-19 pandemic and increased work from home arrangements. However, we remain optimistic and expect the industry outlook will improve in FY2024.

- c) What are your expectations for profit margins in FY2023? Have your key input costs continued to rise or is it moderating?

Response:

We expect to remain profitable in FY2023. Our key input costs have recently begun to stabilise.

- 2) The furniture segment is the Group's core business, which accounted for 61.8% of total revenue in FY2022. However, geographically, North America accounted for only 19.5% of total revenue, while Asia contributed 74.3%. This is in contrast to other Malaysia-based furniture companies that derive most of their sales from North America.

What is the furniture segment's sales breakdown by country? Does the Group sell its furniture products to local customers/distributors who then export the products to North America? If so, what are the advantages and disadvantages of this business model compared to direct exports?

Response:

The sales breakdown is provided by region instead of country for clarity, as each region comprises multiple countries. Provided is the sales breakdown as a percentage of furniture sales for FY2022. Local sales are not included in the Asia region sales amount.



| Region | Sales amount (RM'000) | % of Furniture Sales |
|---------------|-----------------------|----------------------|
| Asia | 72,590 | 34.04% |
| North America | 59,532 | 27.91% |
| Oceania | 9,639 | 4.52% |
| Europe | 9,220 | 4.32% |
| South America | 105 | 0.05% |
| Local | 62,190 | 29.16% |
| Total | 213,276 | 100.00% |

The Local sales of the Group mainly consists of furniture components as opposed to finished products. These components are sold within the Group as well as to outside buyers. The advantage of focusing on the production of certain commonly used components is that it increases overall production efficiency.

The Group does export some of its products by way of local agents that have relationships with overseas customers. The advantage of this is that the Group is able to penetrate new customers and markets quickly without burdening in house sales and marketing resources. The disadvantage of working with these agents is that they generally charge a small commission per successful order.

- 3) With the disposal of Digital Furniture Sdn Bhd for RM22.5 million, the Group can reallocate management resources towards focusing more on the production and sales of existing finished products such as dining sets, sofa sets and kitchen cabinets (page 14 of AR 2022).

How much of the disposal proceeds will be allocated to the expansion of production capacity? What is the expected increase in capacity? What is your existing capacity and utilisation rate for finished furniture products?

Response:

Most of the proceeds from the sale of Digital Furniture Sdn Bhd will be utilized for future investment opportunities. Pending the identification of such opportunities, the proceeds shall be placed in interest bearing securities and fixed deposits.

At this moment we have no immediate plans to expand production capacity as our existing utilization rate is around 60%.



- 4) On 11 August 2022, the Group entered into another Joint Venture Agreement in PT Tiga Mutiara Nusantara for manufacturing and selling of finger jointed finished gesso coated and primed moulding products. The Group expects the joint venture company to begin production in 2Q FY2023 and is confident that this venture will contribute positively to the Group's bottom line (page 14 of AR 2022).

What is the expected earnings contribution from PT Tiga Mutiara Nusantara after production starts in 2Q FY2023? How was the financial performance of this joint venture company in the past five years?

Response:

PT Tiga Mutiara Nusantara ("PTTMN") is still expected to be loss making in FY2023 as this is the initial year of operating under the JV. We expect it to experience a learning curve as it seeks to achieve production consistency. As a result, we are unable to detail the expected earnings contribution from PTTMN as actual performance may differ materially. Based on our feasibility study, we are confident that PTTMN will contribute positively to the Group's earnings once it is over the learning curve.

PTTMN's results for the last five years are as follow:-

| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---------------|----------------|----------------|----------------|----------------|
| Revenue (RM'000) | 19,191 | 12,148 | 15,947 | 18,310 | 15,633 |
| Profit/(Loss) after tax (RM'000) | 2,251 | (1,008) | (2,734) | (3,783) | (2,179) |

- 5) Shortage of raw materials and fluctuating costs for these materials are a key risk throughout the Group because raw materials purchases from suppliers are without any long-term supply arrangements (page 18 of AR 2022).

Some furniture companies own a timber extraction license/concession to eliminate the risk of raw material shortages. Has the Group considered this? What would be the pros and cons in doing so?

Response:

At this moment, the Group has no intention of owning a timber extraction license/concession. The Group believes that it can manage the potential shortage of raw materials risk by virtue of its long-term relationships with existing suppliers.



- 6) The Group acquired nine acres of freehold land at Muar Furniture Park in Bakri, Johor. This gives the Group an opportunity to sell carton boxes to furniture manufacturers at Muar Furniture Park in the future (page 20 of AR 2022).

The Group has also mentioned about this land acquisition in its previous annual reports but there wasn't any details or updates provided. Please provide some updates including the potential sales contribution from the sales of carton boxes to furniture manufacturers.

Response:

The Muar Furniture Park is still mostly vacant, and construction has not started on the 9 acres of freehold land we acquired. Detailed information will be provided once more furniture manufacturers begin their operations at the Furniture Park and we have more visibility on potential sales.

- 7) In addition to its core segment in furniture, the Group's other segments are Packaging, Wood processing, Construction, Renewable Energy and Others (provision of transportation services, property letting and printing).

Which segment does the Group expect the greatest growth and how will it be achieved? Has the Group considered phasing out certain segments and reallocating resources to areas of growth?

Response:

With the growth of the construction and property development sector in Sabah, the Group expects the Construction segment will have improved growth in the future. Additionally, the Group expects the Renewable Energy segment to show growth as the demand for Renewable alternatives is set to grow in the coming years.

There are sufficient resources available to the Group to allocate towards areas of growth without having to phase out any segment.

Corporate Governance Matters

1. Paragraph 9.21 (2) of Bursa Malaysia Main Market Listing Requirements requires companies to publish a summary of the key matters discussed at the AGM onto the company's website soon after the conclusion of the AGM.

As of 6 December 2022, Jaycorp has not published any summary of key matters discussed on its website (www.jaycorp.com.my). Please explain.

Response:

There were no questions from shareholders at the last AGM.

2. Practice 13.6 of the Malaysian Code on Corporate Governance 2021 (MCCG) stipulates that listed companies should circulate to shareholders the complete minutes of the general meeting detailing the meeting proceedings including issues or concerns raised by shareholders and responses by the company no later than 30 business days after the completion of the general meeting.

Jaycorp in its Corporate Governance Report 2022 (on page 65) noted it has departed from Practice 13.6 with the explanation that it "would consider to take necessary action to publish the minutes of meeting in a platform which accessible to the shareholders i.e. Company's website".

Does Jaycorp intend to apply Practice 13.6, and if yes, by when?

Response:

We will upload to the website as stipulated, within 30 days from the AGM 2022.

3. Practice 8.1 of the MCCG stipulates a detailed disclosure on named basis of the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

Jaycorp in its Corporate Governance Report 2022 (on page 40) stated that it has "Applied" Practice 8.1 and provided the explanation: "The Company disclosed the Directors' Remuneration in the Annual Report 2022 but not on named basis. The Company had disclosed the details of the Directors' remuneration comprising remuneration received/receivable from the Company and subsidiaries respectively in the bands width basis to uphold confidentiality and sensitivity reasons."

However, this is a Departure from Practice 8.1 as a detailed remuneration disclosure was not provided on a named basis.



Listed companies are required under the Listing Requirements to disclose annually the remuneration of all directors of the listed company (including the remuneration for services rendered to the listed company as a group) for the financial year on a named basis, stating the amount received or to be received from the listed company and on a group basis respectively. The disclosure must include the amount in each component of the remuneration (e.g. directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office and benefits in kind based on an estimated money value) for each director.

Please take note.

Response:

Noted.

Thank you.

Yours faithfully,
For and on behalf of **JAYCORP BERHAD**

SIGNED

MUAZ JEMA KHAN
EXECUTIVE DIRECTOR