

## **A. EXPLANATION NOTES**

### **A1. Basis of Preparation**

The interim financial statements of the Group are unaudited and have been prepared under the same accounting policies and methods of computation as those used in the preparation of the most recent audited financial statements and comply with MFRS 134: Interim Financial Reporting, issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 July 2018. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 July 2018.

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with MFRSs, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The accounting policies and presentation adopted for this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 31 July 2018 except for the changes in accounting policies and presentation resulting from the adoption of relevant MFRSs, Amendment to MFRSs and IC Interpretations that are effective for the financial periods beginning on 1 August 2018.

The adoption of relevant MFRSs, Amendment to MFRSs and IC Interpretations are not expected to have any significant financial impact on the financial statements of the Group, except as disclosed below:

#### MFRS 9 Financial Instruments

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces the existing guidance in MFRS 139 Financial Instruments: Recognition and Measurement and introduces a revised guidance on the classification and measurement of financial instruments, including a single forward-looking 'expected loss' impairment model for calculating impairment on financial assets, and a new approach to hedge accounting. Under this MFRS 9, the classification of financial assets is driven by cash flow characteristics and the business model in which a financial asset is held.

Furthermore, pursuant to MFRS 9, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, the Company is required to recognise and measure a lifetime expected credit loss ("ECL") on its debt instruments. This application will result in earlier recognition of credit losses. The impact from implementation of MFRS 9 and the determination of ECL is not expected to have material impact on the financial statements of the Group.

**A1. Basis of Preparation (cont'd)**

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a single comprehensive model for revenue recognition and will supersede the current revenue recognition guidance and other related interpretations when it becomes effective. Under MFRS 15, an entity shall recognise revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the distinct promised goods or services underlying the particular performance obligation is transferred to the customers. The amendments to MFRS 15 further clarify the concept of 'distinct' for the purposes of this accounting standard. In addition, extensive disclosures are also required by MFRS 15 about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The adoption of MFRS 15 is not expected to have material impact on the financial statements of the Group.

**A2. Qualified Audit Report**

The auditors' report of the preceding annual financial statements was not qualified.

**A3. Seasonal or Cyclical Factors**

The principal business and performance of the Group were not significantly affected by any seasonal or cyclical factors.

**A4. Unusual Items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the quarter and cumulative period ended 31 July 2019.

**A5. Changes in Estimates**

There were no material changes in estimates that have had any material effect in the current quarter and cumulative period ended 31 July 2019.

**A6. Debts and Equity Securities**

Save as disclosed below, there were no issuances, repurchases and repayments of debt and equity securities during the quarter and cumulative period ended 31 July 2019:

The Company bought back from the open market 729,600 ordinary shares of the Company ("Jaycorp Shares") at an average buy-back price of RM0.885 per share. The total consideration paid, including transaction costs, was RM645,653.25 and it was financed by internally generated funds. The Jaycorp Shares bought back were being held as treasury shares in accordance with Section 127 of the Companies Act 2016.

As at 31 July 2019, the number of treasury shares held was 2,331,500 Jaycorp Shares.

**A7. Dividend Paid**

The Company paid a first and final single tier dividend of 5.0 sen per ordinary share amounting to RM6,750,725 in respect of the financial year ended 31 July 2018 on 28 December 2018.

The Company paid a first single tier interim dividend of 3.0 sen per ordinary share amounting to RM4,047,922 in respect of the financial year ended 31 July 2019 on 30 April 2019.

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**A8. Segment Reporting**

The segmental information of the Group for the financial year to-date 31 July 2019 was summarised as below:

	Investment Holding	Furniture	Carton Boxes	Kiln-Drying	Renewable Energy	Construction	Others	Inter-Co Elimination	Total
RM'000									
<b>Revenue</b>									
External sales	-	231,879	42,704	16,238	9,472	8,044	13,613	-	321,950
Inter-Co sales	14,637	1,464	8,370	21,058	-	-	3,140	(48,669)	-
<b>Total revenue</b>	<b>14,637</b>	<b>233,343</b>	<b>51,074</b>	<b>37,296</b>	<b>9,472</b>	<b>8,044</b>	<b>16,753</b>	<b>(48,669)</b>	<b>321,950</b>
<b>Results</b>									
Segment result	11,061	20,034	6,025	389	1,472	3,563	2,005	(13,316)	31,233
Interest income	133	565	192	28	-	16	14	(123)	825
Finance costs	(13)	(422)	-	(78)	(437)	(43)	(23)	123	(893)
<b>Profit/(Loss) before tax</b>	<b>11,181</b>	<b>20,177</b>	<b>6,217</b>	<b>339</b>	<b>1,035</b>	<b>3,536</b>	<b>1,996</b>	<b>(13,316)</b>	<b>31,165</b>
<b>Assets</b>	<b>28,942</b>	<b>137,173</b>	<b>23,694</b>	<b>40,877</b>	<b>8,724</b>	<b>7,390</b>	<b>35,544</b>	<b>(42,319)</b>	<b>240,025</b>
<b>Liabilities</b>	<b>823</b>	<b>32,895</b>	<b>5,127</b>	<b>18,811</b>	<b>7,350</b>	<b>1,961</b>	<b>31,647</b>	<b>(42,319)</b>	<b>56,295</b>

*Geographical segment*

	Malaysia RM'000	Indonesia RM'000	Total RM'000
<b>Revenue</b>			
Total	358,345	12,148	370,493
Internal	(46,348)	(2,195)	(48,543)
External	<u>311,997</u>	<u>9,953</u>	<u>321,950</u>
<b>Profit/(Loss) before tax</b>	<u>32,200</u>	<u>(1,035)</u>	<u>31,165</u>
<b>Assets</b>	<u>224,412</u>	<u>15,613</u>	<u>240,025</u>
<b>Liabilities</b>	<u>50,543</u>	<u>5,752</u>	<u>56,295</u>

The Group operates primarily in Malaysia, except for one of its subsidiaries whose principal activities include pressure treatment and kiln-drying of rubberwood and manufacturing of furniture parts. This subsidiary operates in Medan, Indonesia.

**A9. Valuation of Property, Plant and Equipment**

There were no revaluation of properties of the Group in the current quarter and cumulative period ended 31 July 2019.

**A10. Subsequent Events**

On 23 August 2019, the Company subscribed for 5,100,000 new ordinary shares in Honsoar Jaycorp Cabinetry Sdn. Bhd. ("HJCSB") for a total cash consideration of Ringgit Malaysia five million and one hundred thousand only (RM5,100,000) (the Subscription).

Subsequent to the Subscription, HJCSB became a 60% owned subsidiary of Jaycorp.

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**A11. Changes in the Composition of the Group**

On 8 May 2019, the Company acquired an additional 230,000 ordinary shares in Instyle Sofa Sdn. Bhd. ("ISSB") from Chew Weh Lit for a total cash consideration of Ringgit Malaysia two hundred and thirty thousand only (RM230,000) (the Acquisition).

Subsequent to the Acquisition, ISSB became a 87% owned subsidiary of Jaycorp (previously a 83% subsidiary).

**A12. Capital Commitments**

Capital commitments as at 31 July 2019 were as follows:-

	RM'000
Property, plant and equipment	<u>6,394</u>

**A13. Changes in Contingent Liabilities or Contingent Assets**

a. Contingent Liabilities

	Company As of 31 July 2019 RM'000
Unsecured Corporate guarantees in favour of bankers for providing banking facilities to subsidiaries	<u>85,524</u>

b. Contingent Assets

There were no contingent assets since the last audited financial statements for the financial year ended 31 July 2018.

**A14 Significant Related Party Transactions**

Related party transactions occur within the normal course of business and the terms offered are no different to those offered to third parties. Significant related party transactions during the current quarter and financial year-to-date are summarised below:

Type of transactions:-	Current Quarter RM'000	Financial year-to-date RM'000
– Rental payment – office building	23	90
– Rental payment – staff hostel	5	20
– Supplies of cement	<u>-</u>	<u>26</u>
– Rental income	<u>4</u>	<u>18</u>

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**SELECTED EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES:**

**B1. Review of Performance**

Revenue	Current Quarter			Year To-date		
	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	Current Year	Preceding Year	Changes
	31 Jul 2019	31 Jul 2018		31 Jul 2019	31 Jul 2018	
	RM'000	RM'000	RM'000	RM'000		
Investment Holding	986	2,432	-59.46%	14,637	12,213	19.85%
Furniture	62,539	57,937	7.94%	233,343	221,876	5.17%
Carton Boxes	13,798	12,412	11.17%	51,074	46,172	10.62%
Kiln-Drying	9,345	8,164	14.47%	37,296	40,163	-7.14%
Renewable Energy	1,858	1,945	-4.47%	9,472	6,056	56.41%
Construction	1,364	2,849	-52.12%	8,044	9,478	-15.13%
Others	1,009	965	4.56%	16,753	3,561	370.46%
Inter-Co Elimination	(10,360)	(10,017)		(48,669)	(39,526)	
<b>Total</b>	<b>80,539</b>	<b>76,687</b>	<b>5.02%</b>	<b>321,950</b>	<b>299,993</b>	<b>7.32%</b>

Profit/(Loss) Before Tax	Current Quarter			Year To-date		
	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	Current Year	Preceding Year	Changes
	31 Jul 2019	31 Jul 2018		31 Jul 2019	31 Jul 2018	
	RM'000	RM'000	RM'000	RM'000		
Investment Holding	336	1,286	-73.87%	11,181	7,818	43.02%
Furniture	6,461	5,128	25.99%	20,177	12,637	59.67%
Carton Boxes	2,006	982	104.28%	6,217	4,269	45.63%
Kiln-Drying	(990)	242	-509.09%	339	2,425	-86.02%
Renewable Energy	(148)	63	-334.92%	1,035	(397)	360.71%
Construction	(309)	1,467	-121.06%	3,536	1,415	149.89%
Others	241	168	43.45%	1,996	333	499.40%
Inter-Co Elimination	(656)	(2,102)		(13,316)	(10,893)	
<b>Total</b>	<b>6,941</b>	<b>7,234</b>	<b>-4.05%</b>	<b>31,165</b>	<b>17,607</b>	<b>77.00%</b>

The Group registered turnover of RM80.5 million for the quarter ended 31 July 2019 ("current quarter") compared to turnover of RM76.7 million in the previous year corresponding period. Profit before tax for the current quarter was RM6.9 million compared to profit before tax of RM7.2 million for the previous year corresponding period.

The investment holding segment consists of the holding company's results which include dividend income and management fees received from subsidiaries. The turnover and profit before tax for the current quarter were lower compared with the previous year corresponding period as lower dividends were declared by the subsidiaries in the current quarter.

The furniture segment continued to be the main contributor to the Group's revenue. The furniture segment recorded RM62.5 million and RM6.5 million in turnover and profit before tax respectively for the current quarter. Comparatively, turnover and profit before tax for the previous year corresponding period were RM57.9 million and RM5.1 million respectively. The turnover for the current quarter was higher than the previous year corresponding period mainly due to increased demand from Asian markets and the strengthening of United States Dollar (USD) against Malaysian Ringgit (MYR). The higher profit before tax for the current quarter compared with the previous year corresponding period was due to higher turnover and improved operational efficiency.

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**B1. Review of Performance (cont'd)**

The carton boxes segment contributed RM13.8 million in turnover and profit before tax of RM2.0 million for the current quarter compared with turnover of RM12.4 million and profit before tax of RM1.0 million in the previous year corresponding period. The turnover in this segment was higher than the previous year corresponding period mainly due to higher demand from external customers. The profit before tax was higher than the previous year corresponding period due to higher turnover and a decrease in the price of the corrugated boards.

The kiln-drying segment registered RM9.3 million in turnover and loss before tax of RM1.0 million for the current quarter compared with turnover of RM8.2 million and profit before tax of RM0.2 million in the previous year corresponding period. The higher turnover for the current quarter was mainly due to higher intercompany sales. The loss before tax for the current quarter was due to a write down of inventories in the Malaysian subsidiary and provision for employee benefits in the Indonesian subsidiary.

The renewable energy segment contributed RM1.9 million in turnover and loss before tax of RM0.1 million for the current quarter compared with turnover of RM1.9 million and profit before tax of RM0.1 million in the previous year corresponding period. The loss before tax for the current quarter was mainly due to the biomass plant having a scheduled annual shutdown of 21 days for inspection.

The engineering and construction segment registered RM1.4 million in turnover and loss before tax of RM0.3 million for the current quarter compared with turnover of RM2.8 million and profit before tax of RM1.5 million in the previous year corresponding period. The lower turnover in the current quarter compared to the previous year corresponding period was due to lower progress billings from the existing projects as one of the projects is near to completion. There is a loss before tax for the current quarter due to lower turnover and management consultancy fees.

**B2. Quarterly Analysis**

Revenue	Current Quarter	Immediate Preceding Quarter	Changes
	31 Jul 2019	30 Apr 2019	
	RM'000	RM'000	
Investment Holding	986	4,869	-79.75%
Furniture	62,539	49,315	26.82%
Carton Boxes	13,798	11,193	23.27%
Kiln-Drying	9,345	8,959	4.31%
Renewable Energy	1,858	2,650	-29.89%
Construction	1,364	737	85.07%
Others	1,009	1,366	-26.13%
Inter-Co Elimination	(10,360)	(13,163)	
<b>Total</b>	<b>80,539</b>	<b>65,926</b>	<b>22.17%</b>

Profit/ (Loss) Before Tax	Current Quarter	Immediate Preceding Quarter	Changes
	31 Jul 2019	30 Apr 2019	
	RM'000	RM'000	
Investment Holding	336	3,978	-91.55%
Furniture	6,461	3,145	105.44%
Carton Boxes	2,006	1,343	49.37%
Kiln-Drying	(990)	350	-382.86%
Renewable Energy	(148)	545	-127.16%
Construction	(309)	209	-247.85%
Others	241	131	83.97%
Inter-Co Elimination	(656)	(4,539)	
<b>Total</b>	<b>6,941</b>	<b>5,162</b>	<b>34.46%</b>

**B2. Quarterly Analysis (cont'd)**

The Group recorded turnover of RM80.5 million and profit before tax of RM6.9 million for the current quarter compared to last quarter's turnover and profit before tax of RM65.9 million and RM5.2 million respectively.

For the investment holding segment, the turnover and profit before tax for the current quarter were lower than the last quarter as lower dividends were declared by subsidiaries in the current quarter.

The furniture segment recorded RM62.5 million and RM6.5 million in turnover and profit before tax respectively for the current quarter. Comparatively, turnover and profit before tax for the last quarter were RM49.3 million and RM3.1 million respectively. The higher turnover and profit before tax for the current quarter compared to the last quarter were mainly due to an increase in demand from the local and overseas markets.

The carton boxes segment contributed RM13.8 million in turnover and profit before tax of RM2.0 million for the current quarter compared to turnover of RM11.2 million and profit before tax of RM1.3 million in the last quarter. The turnover and profit before tax for this segment were higher in this quarter compared to the last quarter mainly due to higher demand from external customers.

The kiln-drying segment registered RM9.3 million in turnover and loss before tax of RM1.0 million for the current quarter compared with turnover of RM9.0 million and profit before tax of RM0.4 million in the last quarter. Despite higher turnover, the loss before tax in this segment for the current quarter was due to a write down of inventories in the Malaysian subsidiary and a provision for employee benefits in the Indonesian subsidiary.

The renewable energy segment contributed RM1.9 million in turnover and loss before tax of RM0.1 million for the current quarter compared with turnover of RM2.7 million and profit before tax of RM0.5 million in the last quarter. The lower turnover and resulting loss before tax were mainly due to a scheduled annual shutdown of the biomass plant for 21 days for inspection.

The engineering and construction segment registered RM1.4 million in turnover and loss before tax of RM0.3 million for the current quarter compared with turnover of RM0.7 million and profit before tax of RM0.2 million in the last quarter. Despite higher turnover, this segment made a loss before tax for the current quarter due to a decrease in management consultancy fees.

The "others" segment contributed RM1.0 million in turnover and profit before tax of RM0.2 million for the current quarter compared with turnover of RM1.4 million and profit before tax of RM0.1 million in the last quarter. The turnover for the current quarter is lower than the last quarter due to a decrease in the trading of building materials (as this project was completed in the last quarter). However, the profit before tax for the current quarter was higher than the last quarter due to an increase in the transport income. In addition, building maintenance expenses were incurred in the last quarter.

**B3. Current Year Prospects**

The furniture segment remains the Group's core business. Locally, increasing production costs and shortages of workers may affect the financial performance of this segment. The international furniture market remains challenging and the Group will continue to focus on controlling costs, exploring new markets and developing new products in order to achieve better profits and growth of the business. The tensions in the trade relationship between the United States ("US") and China may provide an opportunity for the Group to increase its exports to the US.

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**B3. Current Year Prospects (cont'd)**

The packaging segment registered a stronger performance due to higher orders received from customers in the furniture industry. The Group will continue to control the production cost and upgrade machinery to improve operational efficiency.

The renewable energy segment performed better in the current year due to a higher sales quantity and improved cost control which partially offset against the increases in raw material price.

The Likas Project and the UMS Project which are currently being carried out by the Group's 60%-owned subsidiary, Jaycorp Engineering and Construction Sdn Bhd ("JECSB") are expected to be completed in the coming months. The growth of the construction and property development sector in Sabah should enable the Group to diversify its revenue and earnings streams. The Group intends to continue actively bid for more construction projects going forward.

**B4. Profit Forecast**

There were no profit forecasts issued for the current financial period under review.

**B5. Taxation**

The tax charges comprise: -

	Current Quarter RM'000	Financial year-to-date RM'000
• Company and Subsidiary Companies		
– Income Tax	2,591	8,602
– Deferred Tax	(329)	881
	2,262	9,483

The Group's effective tax rate in the current quarter is higher than the statutory tax rate as no deferred tax asset has been recognised in respect of losses in certain loss making subsidiaries in Malaysia.

**B6. Corporate Proposals**

There were no corporate proposals as at the date of this announcement.

**B7. Group Borrowings and Debt Securities**

The Group borrowings as at 31 July 2019 are summarised as below:-

	Current	Non-current	Total
	RM'000	RM'000	RM'000
Secured term loan – RM	1,644	4,264	5,908
Secured hire purchase – RM	734	1,034	1,768
Secured banker acceptance – RM	4,652	-	4,652
Secured banker acceptance – USD	709	-	709
Secured overdraft – RM	593	-	593
<b>Total</b>	<b>8,332</b>	<b>5,298</b>	<b>13,630</b>

# Out of RM13.6 million, RM0.7 million borrowings were denominated in USD currency.



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**B8. Material Litigation**

Neither the Company nor its subsidiaries are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, which has a material effect on the Group's financial position or business, and the Directors are not aware of any proceedings, pending or threatened, against the Company and/or any of its subsidiaries or of any facts likely to give rise to any proceedings which may materially and adversely affect the Group's financial position or business.

**B9. Other Disclosures Items to the Statement of Comprehensive Income**

Profit for the period is arrived at after crediting/(charging):-

	Current Quarter RM'000	Financial year-to-date RM'000
- Interest income	204	825
- Other income including investment income	1,029	8,678
- Interest expense	(210)	(893)
- Depreciation on property, plant and equipment and investment properties	(2,327)	(9,256)
- Gain on disposal on property, plant and equipment	40	174
- Foreign exchange (loss)/gain	(19)	308
- Loss on derivatives	(45)	(465)
- Reversal of impairment loss/(Impairment loss) on receivables	12	(94)
- Write down of inventories	(880)	(266)
- Impairment loss on property, plant and equipment	(822)	(822)

Save as disclosed above, the following items are not applicable to the Group for the fourth financial quarter ended 31 July 2019:-

- exceptional items

**B10. Dividend**

Subject to the shareholders' approval at the forthcoming Annual General Meeting, the Board of Directors proposed a final single tier dividend of 7.0 sen per ordinary share for the financial year ended 31 July 2019 at an entitlement date to be determined later.

**B11. Basic Earnings Per Share (EPS)**

	Current Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year To Date
Profit after tax and minority interest (RM'000)	4,669	4,646	19,817	10,288
Weighted average number of ordinary shares in issue ('000)	135,080	136,506	135,080	136,506
Basic EPS (sen)	3.46	3.40	14.67	7.54

**B12. Authorisation for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 September 2019.