

## **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 2019. 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 financial year ended 31 July 2019.

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 Malaysian Financial Reporting Standards ("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 2019 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 2019.

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 16 Leases

MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in profit or loss. The Group has adopted MFRS 16 using the modified retrospective approach which measured the right-of-use assets equals to the lease liabilities at 1 August 2019 with no restatement of comparative information.

### **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.

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**A4. Unusual Items**

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

**A5. Changes in Estimates**

There were no material changes in estimates that have had any material effect in the current quarter ended 31 October 2019.

**A6. Debts and Equity Securities**

There were no issuances, repurchases and repayments of debt and equity securities during the quarter ended 31 October 2019.

As at 31 October 2019, the number of treasury shares held was 2,331,500 ordinary shares.

**A7. Dividend Paid**

There were no dividends paid for the quarter ended 31 October 2019.

**A8. Segment Reporting**

The segmental information of the Group for the financial year to-date 31 October 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	-	56,814	11,512	4,539	2,013	1,265	187	-	76,330
Inter-Co sales	330	51	1,797	4,309	-	-	787	(7,274)	-
<b>Total revenue</b>	<b>330</b>	<b>56,865</b>	<b>13,309</b>	<b>8,848</b>	<b>2,013</b>	<b>1,265</b>	<b>974</b>	<b>(7,274)</b>	<b>76,330</b>
<b>Results</b>									
Segment result	(333)	5,758	1,944	(269)	299	(170)	166	-	7,395
Interest income	27	147	55	9	-	1	7	(26)	220
Finance costs	(2)	(79)	-	(50)	(90)	(8)	-	26	(203)
	(308)	5,826	1,999	(310)	209	(177)	173	-	7,412
Less: Share of loss of joint venture									(305)
<b>Profit before tax</b>									<b>7,107</b>
<b>Assets</b>	<b>28,467</b>	<b>141,490</b>	<b>24,895</b>	<b>41,698</b>	<b>8,774</b>	<b>6,745</b>	<b>35,577</b>	<b>(46,248)</b>	<b>241,398</b>
Add: Investment in joint venture									4,795
<b>Total assets</b>									<b>246,193</b>
<b>Total Liabilities</b>	<b>5,892</b>	<b>32,766</b>	<b>4,734</b>	<b>19,878</b>	<b>7,193</b>	<b>1,674</b>	<b>31,609</b>	<b>(46,248)</b>	<b>57,498</b>

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**A8. Segment Reporting (cont'd)**

*Geographical segment*

	Malaysia RM'000	Indonesia RM'000	Total RM'000
Revenue			
Total	80,391	3,213	83,604
Internal	<u>(6,726)</u>	<u>(548)</u>	<u>(7,274)</u>
External	<u>73,665</u>	<u>2,665</u>	<u>76,330</u>
Profit/(Loss) before tax	<u>7,958</u>	<u>(851)</u>	<u>7,107</u>
Assets	<u>229,871</u>	<u>16,322</u>	<u>246,193</u>
Liabilities	<u>50,248</u>	<u>7,250</u>	<u>57,498</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 ended 31 October 2019.

**A10. Subsequent Events**

There were no material events subsequent to the reporting period up to 6 December 2019 (latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report), which have not been reflected, in the financial statements for the current quarter under review.

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

The Group entered into a joint venture agreement with Honsoar International Limited ("HIL") to set up a joint venture company ("JV company") to further diversify our products to include kitchen and bathroom vanity cabinets. On 23 August 2019, the Company subscribed for 5,100,000 new ordinary shares in Honsoar Jaycorp Cabinetry Sdn. Bhd. (formerly known as Honsoar 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 jointly controlled entity of Jaycorp.

**A12. Capital Commitments**

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

	RM'000
Property, plant and equipment	<u>5,530</u>

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

a. Contingent Liabilities

Company  
 As of 31 October 2019  
 RM'000

Unsecured Corporate guarantees in favour of bankers for providing banking facilities to subsidiaries	<u>90,633</u>
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b. Contingent Assets

There were no contingent assets since the last audited financial statements for the financial year ended 31 July 2019.

**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	22	22
– Rental payment – staff hostel	<u>5</u>	<u>5</u>
– Rental income	<u>5</u>	<u>5</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 Oct 2019	31 Oct 2018		31 Oct 2019	31 Oct 2018	
	RM'000	RM'000	RM'000	RM'000		
Investment Holding	330	330	-	330	330	-
Furniture	56,865	61,903	-8.14%	56,865	61,903	-8.14%
Carton Boxes	13,309	12,639	5.30%	13,309	12,639	5.30%
Kiln-Drying	8,848	9,801	-9.72%	8,848	9,801	-9.72%
Renewable Energy	2,013	2,502	-19.54%	2,013	2,502	-19.54%
Construction	1,265	2,738	-53.80%	1,265	2,738	-53.80%
Others	974	10,730	-90.92%	974	10,730	-90.92%
Inter-Co Elimination	(7,274)	(8,292)		(7,274)	(8,292)	
<b>Total</b>	<b>76,330</b>	<b>92,351</b>	<b>-17.35%</b>	<b>76,330</b>	<b>92,351</b>	<b>-17.35%</b>

Profit/(Loss) Before Tax	Current Quarter			Year To-date		
	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	Current Year	Preceding Year	Changes
	31 Oct 2019	31 Oct 2018		31 Oct 2019	31 Oct 2018	
	RM'000	RM'000	RM'000	RM'000		
Investment Holding	(308)	(456)	32.46%	(308)	(456)	32.46%
Furniture	5,826	4,863	19.80%	5,826	4,863	19.80%
Carton Boxes	1,999	1,175	70.13%	1,999	1,175	70.13%
Kiln-Drying	(310)	701	-144.22%	(310)	701	-144.22%
Renewable Energy	209	376	-44.41%	209	376	-44.41%
Construction	(177)	1,758	-110.07%	(177)	1,758	-110.07%
Others	173	1,194	-85.51%	173	1,194	-85.51%
Inter-Co Elimination	-	-		-	-	
Share of loss of joint venture	(305)	-		(305)	-	
<b>Total</b>	<b>7,107</b>	<b>9,611</b>	<b>-26.05%</b>	<b>7,107</b>	<b>9,611</b>	<b>-26.05%</b>

The Group registered turnover of RM76.3 million for the quarter ended 31 October 2019 ("current quarter") compared to turnover of RM92.4 million in the previous year corresponding period. Profit before tax for the current quarter was RM7.1 million compared to profit before tax of RM9.6 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 furniture segment continued to be the main contributor to the Group's revenue. The furniture segment recorded RM56.9 million and RM5.8 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 RM61.9 million and RM4.9 million respectively. The turnover for the current quarter was lower than the previous year corresponding period mainly due to decreased demand from Asian and North American markets. Despite lower turnover, the higher profit before tax for the current quarter compared with the previous year corresponding period was due to the strengthening of United States Dollar (USD) against Malaysian Ringgit (MYR) and one-off insurance payout received.

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

The carton boxes segment contributed RM13.3 million in turnover and profit before tax of RM2.0 million for the current quarter compared with turnover of RM12.6 million and profit before tax of RM1.2 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 existing external customers. The profit before tax was higher than the previous year corresponding period due to higher turnover and improvement in production efficiency.

The kiln-drying segment registered RM8.8 million in turnover and loss before tax of RM0.3 million for the current quarter compared with turnover of RM9.8 million and profit before tax of RM0.7 million in the previous year corresponding period. The lower turnover for the current quarter was due to lower intercompany sales of the Malaysian subsidiary to the furniture segment and a decrease in demand from overseas customers of the Indonesian subsidiary. The loss before tax was due to lower turnover, increased material and labour costs at the Indonesian subsidiary.

The renewable energy segment contributed RM2.0 million in turnover and profit before tax of RM0.2 million for the current quarter compared with turnover of RM2.5 million and profit before tax of RM0.4 million in the previous year corresponding period. The lower turnover and profit before tax for the current quarter were mainly due to a temporary reduction in supply as the main customer is underwent a plant reconfiguration.

The engineering and construction segment registered RM1.3 million in turnover and loss before tax of RM0.2 million for the current quarter compared with turnover of RM2.7 million and profit before tax of RM1.8 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 nearing completion. There is a loss before tax for the current quarter due to lower turnover and 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 RM10.7 million and profit before tax of RM1.2 million in the previous year corresponding period. The turnover and profit before tax for the current quarter were lower than the previous year corresponding period due to a decrease in the trading of building materials (as this project was completed in the last Financial Year).

The joint venture with Honsoar was formed on 23 August 2019 and the Group's share of the pre-operating expenses has been accounted for in this quarter.

**B2. Quarterly Analysis**

Revenue	Current Quarter	Immediate Preceding Quarter	Changes
	31 Oct 2019	31 Jul 2019	
	RM'000	RM'000	
Investment Holding	330	986	-66.53%
Furniture	56,865	62,539	-9.07%
Carton Boxes	13,309	13,798	-3.54%
Kiln-Drying	8,848	9,345	-5.32%
Renewable Energy	2,013	1,858	8.34%
Construction	1,265	1,364	-7.26%
Others	974	1,009	-3.47%
Inter-Co Elimination	(7,274)	(10,360)	
<b>Total</b>	<b>76,330</b>	<b>80,539</b>	<b>-5.23%</b>

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

Profit/ (Loss) Before Tax	Current Quarter	Immediate Preceding Quarter	Changes
	31 Oct 2019	31 Jul 2019	
	RM'000	RM'000	
Investment Holding	(308)	336	-191.67%
Furniture	5,826	6,461	-9.83%
Carton Boxes	1,999	2,006	-0.35%
Kiln-Drying	(310)	(990)	68.69%
Renewable Energy	209	(148)	241.22%
Construction	(177)	(309)	42.72%
Others	173	241	-28.22%
Inter-Co Elimination	-	(656)	
Share of loss of joint venture	(305)	-	
<b>Total</b>	<b>7,107</b>	<b>6,941</b>	<b>2.39%</b>

The Group recorded turnover of RM76.3 million and profit before tax of RM7.1 million for the current quarter compared to last quarter's turnover and profit before tax of RM80.5 million and RM6.9 million respectively.

For the investment holding segment, the turnover and profit before tax for the current quarter were lower than the last quarter as no dividends were declared by subsidiaries in the current quarter.

The furniture segment recorded RM56.9 million and RM5.8 million in turnover and profit before tax respectively for the current quarter. Comparatively, turnover and profit before tax for the last quarter were RM62.5 million and RM6.5 million respectively. The lower turnover and profit before tax for the current quarter compared to the last quarter were mainly due to a decrease in demand from the Asian markets.

The carton boxes segment contributed RM13.3 million in turnover and profit before tax of RM2.0 million for the current quarter compared to turnover of RM13.8 million and profit before tax of RM2.0 million in the last quarter. The turnover for this segment was lower in this quarter compared to the last quarter mainly due to lower demand from internal customers. Despite lower turnover, this segment's profit can be maintained due to improvement in production efficiency.

The kiln-drying segment registered RM8.8 million in turnover and loss before tax of RM0.3 million for the current quarter compared with turnover of RM9.3 million and loss before tax of RM1.0 million in the last quarter. Despite lower turnover, the loss before tax for the current quarter was lower due to a higher write down of inventories in the Malaysian subsidiary and a provision for employee benefits in the Indonesian subsidiary in the last quarter.

The renewable energy segment contributed RM2.0 million in turnover and profit before tax of RM0.2 million for the current quarter compared with turnover of RM1.9 million and loss before tax of RM0.1 million in the last quarter. The higher turnover and profit before tax were mainly due to a scheduled annual shutdown of the biomass plant for 21 days for inspection in the last quarter.

The engineering and construction segment registered RM1.3 million in turnover and loss before tax of RM0.2 million for the current quarter compared with turnover of RM1.4 million and loss before tax of RM0.3 million in the last quarter. Despite lower turnover, the loss before tax for the current quarter was lower due to higher sub-contract wages incurred in the last quarter.

The joint venture with Honsoar was formed on 23 August 2019 and the Group's share of the pre-operating expenses has been accounted for in this quarter.

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**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.

The Group entered into a joint venture agreement with Honsoar International Limited ("HIL") to set up a joint venture company ("JV company") to further diversify our products to include kitchen and bathroom vanity cabinets. We hope to benefit from the technical expertise of our joint venture partner, HIL, in this area. We expect the JV company to begin production during the second quarter of FY20 and this venture will contribute positively to the Group's bottom line.

The packaging segment continues to be very competitive and challenging. However, we will continue to strengthen our market position and expand our customer base. Besides that, the Group will continue to control the production cost and upgrade machinery to improve operational efficiency.

The UMS Project which is currently being carried out by the Group's 60%-owned subsidiary, Jaycorp Engineering and Construction Sdn Bhd ("JECSB") is 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 to 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	2,261	2,261
– Deferred Tax	-	-
	2,261	2,261

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.



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**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 October 2019 are summarised as below:-

	Current	Non-current	Total
	RM'000	RM'000	RM'000
Secured term loan – RM	1,662	3,804	5,466
Secured hire purchase – RM	645	893	1,538
Secured banker acceptance – RM	3,547	-	3,547
Secured banker acceptance – USD	304	-	304
Secured overdraft – RM	1,338	-	1,338
Secured overdraft – IDR	1,734	-	1,734
<b>Total</b>	<b>9,230</b>	<b>4,697</b>	<b>13,927</b>

# Out of RM13.9 million, RM1.7 million and RM0.3 million borrowings were denominated in IDR and USD currency respectively.

**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	220	220
- Other income including investment income	1,702	1,702
- Interest expense	(203)	(203)
- Depreciation on property, plant and equipment, investment properties and right-of-use assets	(2,314)	(2,314)
- Gain on disposal on property, plant and equipment	41	41
- Foreign exchange gain	178	178
- Loss on derivatives	(158)	(158)
- Reversal of impairment loss on receivables	50	50
- Reversal of write down of inventories	242	242
- Reversal of impairment loss on property, plant and equipment	8	8

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

- exceptional items

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**B10. Dividend**

The directors do not recommend the payment of any dividend for the current financial period ended 31 October 2019.

**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)	5,065	6,346	5,065	6,346
Weighted average number of ordinary shares in issue ('000)	134,919	135,190	134,919	135,190
Basic EPS (sen)	3.75	4.69	3.75	4.69

**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 13 December 2019.