

## **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 and cumulative period ended 31 January 2020.

**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 January 2020.

**A6. Debts and Equity Securities**

There were no issuances, repurchases and repayments of debt and equity securities during the quarter and cumulative quarter ended 31 January 2020.

As at 31 January 2020, the number of treasury shares held was 2,331,500 ordinary shares.

**A7. Dividend Paid**

During the quarter, the Company paid a final single tier dividend of RM0.07 per ordinary share amounting to RM9,444,295 in respect of the financial year ended 31 July 2019 on 31 December 2019.

**A8. Segment Reporting**

The segmental information of the Group for the financial year to-date 31 January 2020 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	-	122,415	23,779	10,420	4,467	3,563	369	-	165,013
Inter-Co sales	10,205	80	4,260	10,010	-	-	1,643	(26,198)	-
<b>Total revenue</b>	<b>10,205</b>	<b>122,495</b>	<b>28,039</b>	<b>20,430</b>	<b>4,467</b>	<b>3,563</b>	<b>2,012</b>	<b>(26,198)</b>	<b>165,013</b>
<b>Results</b>									
Segment result	8,614	11,948	4,227	(62)	529	(234)	298	(9,545)	15,775
Interest income	56	295	110	20	-	1	12	(52)	442
Finance costs	(43)	(172)	(1)	(108)	(180)	(15)	-	52	(467)
	8,627	12,071	4,336	(150)	349	(248)	310	(9,545)	15,750
Less: Share of loss of joint venture									(1,100)
<b>Profit before tax</b>									<b>14,650</b>
<b>Assets</b>									
	30,536	138,825	24,439	41,069	8,701	6,965	34,696	(42,889)	242,342
Add: Investment in joint venture									4,000
<b>Total assets</b>									<b>246,342</b>
<b>Total Liabilities</b>	<b>8,547</b>	<b>32,633</b>	<b>4,541</b>	<b>19,094</b>	<b>6,981</b>	<b>2,085</b>	<b>31,159</b>	<b>(42,889)</b>	<b>62,151</b>

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

*Geographical segment*

	Malaysia RM'000	Indonesia RM'000	Total RM'000
Revenue			
Total	183,150	8,061	191,211
Internal	<u>(25,066)</u>	<u>(1,132)</u>	<u>(26,198)</u>
External	<u>158,084</u>	<u>6,929</u>	<u>165,013</u>
Profit/(Loss) before tax	<u>16,206</u>	<u>(1,556)</u>	<u>14,650</u>
Assets	<u>231,098</u>	<u>15,244</u>	<u>246,342</u>
Liabilities	<u>55,306</u>	<u>6,845</u>	<u>62,151</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 January 2020.

**A10. Subsequent Events**

There were no material events subsequent to the reporting period up to 12 March 2020 (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 January 2020 were as follows:-

	RM'000
Property, plant and equipment	<u>5,630</u>

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

a. Contingent Liabilities

Company  
 As of 31 January 2020  
 RM'000

Unsecured Corporate guarantees in favour of bankers for providing banking facilities to subsidiaries	<u>90,500</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
– Sales of kitchen cabinet and bathroom vanity cabinet	407	407
– Sales of carton box	12	12
– Rental income	<u>4</u>	<u>9</u>
– Purchase of furniture part, board material and hardware	875	875
– Rental payment – office building	22	45
– Rental payment – staff hostel	<u>5</u>	<u>10</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 Jan 2020	31 Jan 2019		31 Jan 2020	31 Jan 2019	
	RM'000	RM'000	RM'000	RM'000		
Investment Holding	9,875	8,451	16.85%	10,205	8,782	16.20%
Furniture	65,630	59,586	10.14%	122,495	121,489	0.83%
Carton Boxes	14,730	13,444	9.57%	28,039	26,083	7.50%
Kiln-Drying	11,582	9,191	26.01%	20,430	18,992	7.57%
Renewable Energy	2,454	2,461	-0.28%	4,467	4,963	-9.99%
Construction	2,298	3,204	-28.28%	3,563	5,942	-40.04%
Others	1,038	3,649	-71.55%	2,012	14,378	-86.01%
Inter-Co Elimination	(18,924)	(16,853)		(26,198)	(25,144)	
<b>Total</b>	<b>88,683</b>	<b>83,133</b>	<b>6.68%</b>	<b>165,013</b>	<b>175,485</b>	<b>-5.97%</b>

Profit/(Loss) Before Tax	Current Quarter			Year To-date		
	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	Current Year	Preceding Year	Changes
	31 Jan 2020	31 Jan 2019		31 Jan 2020	31 Jan 2019	
	RM'000	RM'000	RM'000	RM'000		
Investment Holding	8,934	7,323	22.00%	8,627	6,867	25.63%
Furniture	6,245	5,708	9.41%	12,071	10,571	14.19%
Carton Boxes	2,337	1,694	37.96%	4,336	2,869	51.13%
Kiln-Drying	160	278	-42.45%	(150)	979	-115.32%
Renewable Energy	140	262	-46.56%	349	638	-45.30%
Construction	(72)	1,878	-103.83%	(248)	3,635	-106.82%
Others	138	431	-67.98%	310	1,626	-80.93%
Inter-Co Elimination	(9,545)	(8,122)		(9,545)	(8,122)	
Share of loss of joint venture	(795)	-		(1,100)	-	
<b>Total</b>	<b>7,542</b>	<b>9,452</b>	<b>-20.21%</b>	<b>14,650</b>	<b>19,063</b>	<b>-23.15%</b>

The Group registered turnover of RM88.7 million for the quarter ended 31 January 2020 ("current quarter") compared to turnover of RM83.1 million in the previous year corresponding period. Profit before tax for the current quarter was RM7.5 million compared to profit before tax of RM9.5 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. This segment result will be offset by the inter-co elimination.

The furniture segment continued to be the main contributor to the Group's revenue. The furniture segment recorded RM65.6 million and RM6.2 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 RM59.6 million and RM5.7 million respectively. The turnover and profit before tax for the current quarter were higher than the previous year corresponding period mainly due to increased demand from Asian market.

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

The carton boxes segment contributed RM14.7 million in turnover and profit before tax of RM2.3 million for the current quarter compared with turnover of RM13.4 million and profit before tax of RM1.7 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 RM11.6 million in turnover and profit before tax of RM0.2 million for the current quarter compared with turnover of RM9.2 million and profit before tax of RM0.3 million in the previous year corresponding period. The higher turnover for the current quarter was due to higher intercompany sales of the Malaysian subsidiary to the furniture segment and an increase in demand from overseas customers of the Indonesian subsidiary. Despite higher turnover, the profit before tax was lower than the previous year corresponding period due to selling of lower margin products by the Indonesian subsidiary.

The renewable energy segment contributed RM2.5 million in turnover and profit before tax of RM0.1 million for the current quarter compared with turnover of RM2.5 million and profit before tax of RM0.3 million in the previous year corresponding period. The lower profit before tax was mainly due to higher raw material cost incurred in the current quarter.

The engineering and construction segment registered RM2.3 million in turnover and loss before tax of RM0.1 million for the current quarter compared with turnover of RM3.2 million and profit before tax of RM1.9 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. 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 RM0.1 million for the current quarter compared with turnover of RM3.6 million and profit before tax of RM0.4 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 loss from the joint venture has been accounted for in this quarter.

**B2. Quarterly Analysis**

Revenue	Current Quarter	Immediate Preceding Quarter	Changes
	31 Jan 2020	31 Oct 2019	
	RM'000	RM'000	
Investment Holding	9,875	330	2,892.42%
Furniture	65,630	56,865	15.41%
Carton Boxes	14,730	13,309	10.68%
Kiln-Drying	11,582	8,848	30.90%
Renewable Energy	2,454	2,013	21.91%
Construction	2,298	1,265	81.66%
Others	1,038	974	6.57%
Inter-Co Elimination	(18,924)	(7,274)	
<b>Total</b>	<b>88,683</b>	<b>76,330</b>	<b>16.18%</b>

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

Profit/ (Loss) Before Tax	Current Quarter	Immediate Preceding Quarter	Changes
	31 Jan 2020	31 Oct 2019	
	RM'000	RM'000	
Investment Holding	8,934	(308)	3,000.65%
Furniture	6,245	5,826	7.19%
Carton Boxes	2,337	1,999	16.91%
Kiln-Drying	160	(310)	151.61%
Renewable Energy	140	209	-33.01%
Construction	(72)	(177)	59.32%
Others	138	173	-20.23%
Inter-Co Elimination	(9,545)	-	
Share of loss of joint venture	(795)	(305)	-160.66%
<b>Total</b>	<b>7,542</b>	<b>7,107</b>	<b>6.12%</b>

The Group recorded turnover of RM88.7 million and profit before tax of RM7.5 million for the current quarter compared to last quarter's turnover and profit before tax of RM76.3 million and RM7.1 million respectively.

For the investment holding segment, the turnover and profit before tax for the current quarter were higher than the last quarter as dividends were declared by subsidiaries in the current quarter. This segment result will be offset by the inter-co elimination.

The furniture segment recorded RM65.6 million and RM6.2 million in turnover and profit before tax respectively for the current quarter. Comparatively, turnover and profit before tax for the last quarter were RM56.9 million and RM5.8 million respectively. The higher turnover and profit before tax for the current quarter compared to the last quarter were mainly due to increased demand from the Asian markets.

The carton boxes segment contributed RM14.7 million in turnover and profit before tax of RM2.3 million for the current quarter compared to turnover of RM13.3 million and profit before tax of RM2.0 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 internal and external customers.

The kiln-drying segment registered RM11.6 million in turnover and profit before tax of RM0.2 million for the current quarter compared with turnover of RM8.8 million and loss before tax of RM0.3 million in the last quarter. The higher turnover and profit before tax for the current quarter were due to higher intercompany sales by the Malaysian subsidiary and higher export sales by the Indonesian subsidiary.

The renewable energy segment contributed RM2.5 million in turnover and profit before tax of RM0.1 million for the current quarter compared with turnover of RM2.0 million and profit before tax of RM0.2 million in the last quarter. The higher turnover was mainly due to offtake normalizing from the customers after they underwent a plant reconfiguration last quarter. Despite higher turnover, the profit before tax was lower due to higher raw material cost incurred in the current quarter.

The engineering and construction segment registered RM2.3 million in turnover and loss before tax of RM0.1 million for the current quarter compared with turnover of RM1.3 million and loss before tax of RM0.2 million in the last quarter. The higher turnover and the lower loss before tax for the current quarter was due to higher progress billings from the existing projects in the current quarter.

The joint venture with Honsoar was formed on 23 August 2019 and the Group's share of the loss from the joint venture was higher than the last quarter as the joint venture is still in its initial year of operation and is experiencing a learning curve as it seeks to achieve production consistency.

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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.

COVID-19 presents a significant challenge to the global economy. The Group has significant sales exposure in international markets and thus, we will not be exempt from the uncertainty caused to economic prospects. Domestically, the Movement Control Order recently announced by the Government will help stabilise the situation from a national health standpoint but will disrupt business operations. We fully support the Government's order and believe that the virus can be contained. We are confident that the profit potential of our businesses is intact and we are positioned to benefit from any recovery in the market as and when it comes about eventually.

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. The JV company began production in the second quarter of FY20 and we expect this venture to contribute positively to the Group in the future.

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	2,234	4,495
– Deferred Tax	-	-
	2,234	4,495

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 January 2020 are summarised as below:-

	Current	Non-current	Total
	RM'000	RM'000	RM'000
Secured term loan – RM	2,584	7,294	9,878
Secured hire purchase – RM	564	783	1,347
Secured banker acceptance – RM	4,910	-	4,910
Secured banker acceptance – USD	994	-	994
Secured overdraft – RM	97	-	97
Secured overdraft – IDR	934	-	934
<b>Total</b>	<b>10,083</b>	<b>8,077</b>	<b>18,160</b>

# Out of RM18.2 million, RM1.0 million and RM0.9 million borrowings were denominated in USD and IDR 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	Financial
	RM'000	year-to-date
		RM'000
- Interest income	222	442
- Other income including investment income	1,146	2,848
- Interest expense	(264)	(467)
- Depreciation on property, plant and equipment, investment properties and right-of-use assets	(2,315)	(4,629)
- Gain on disposal on property, plant and equipment	18	59
- Foreign exchange loss	(573)	(394)
- Gain on derivatives	451	293
- (Impairment)/Reversal of impairment loss on receivables	(4)	46
- Reversal of write down of inventories	180	422
- Reversal of impairment loss on property, plant and equipment	39	47

Save as disclosed above, the following items are not applicable to the Group for the second financial quarter ended 31 January 2020:-

- 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 January 2020.

**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)	5,376	4,951	10,441	11,297
Weighted average number of ordinary shares in issue ('000)	134,919	135,080	134,919	135,080
Basic EPS (sen)	3.98	3.67	7.74	8.36

**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 19 March 2020.