

SCOPE

Scope Industries Berhad
(Company No: 591376-D)

A. Notes to the Interim Financial Report For The Third Quarter Ended 31 March 2020

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in compliance with Financial Reporting Standards (“FRS”) 134 Interim Financial Reporting and Appendix 9B of the ACE 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 30 June 2019. These 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 Scope Industries Berhad (“SCOPE” or “Company”) and its subsidiary companies (hereinafter referred to as the “Group”) since the financial year ended 30 June 2019.

A2. Changes in Accounting Policies

The accounting policies applied by the Group in the condensed consolidated financial statements are the same as those applied by the Group in its audited financial statements as at and for the financial year ended 30 June 2019.

A3. Audit Qualification of the Preceding Annual Financial Statements

There was no qualification in the audit report of the preceding annual financial statements of the Group.

A4. Seasonal or Cyclical Factors

The Plantation Division's performance is affected by the shift in the yield pattern experienced owing to the changes in the weather pattern as well it being unduly dry over the past two plus years. This has adversely affected the overall performance of the Division for the period.

A5. Material Unusual Items

There were no material unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group that are unusual in nature, size or incidence for the current interim period and financial year-to-date.

A6. Changes in the Estimates

There were no changes in the nature and amount of estimates reported that have a material effect in the current interim period.

A7. Dividend Paid

There was no dividend paid during the period under review.

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A8. Issuances, Cancellations, Repurchase, Resale and Repayments of Debts and Equity Securities

There were no issuance or repayment of debt or equity securities except for following changes in share capital:-

- i) Pursuant to conversion of warrant by warrant holders in February 2020, a total of 10,000,000 units of ordinary shares were allotted on 5 February 2020.

There was no share buy-back, share cancelled, share held as treasury shares or treasury shares resold for the current financial period to date.

A9. Segment Information

	Year to date Revenue		Year to date Operating profit / (loss)	
	31 Mar 2020 RM'000	31 Mar 2019 RM'000	31 Mar 2020 RM'000	31 Mar 2019 RM'000
Investment holding	58	97	(271)	(313)
Manufacturing	10,480	7,192	(4,086)	(2,277)
Plantation	4,373	4,722	(494)	(771)
	<u>14,911</u>	<u>12,011</u>	<u>(4,851)</u>	<u>(3,361)</u>
Less : Elimination	-	-	-	-
	<u>14,911</u>	<u>12,011</u>		
Operating profit/(loss)			(4,851)	(3,361)
Interest income			75	103
Finance cost			(293)	(16)
			<u>(5,069)</u>	<u>(3,274)</u>
Profit / (loss) before taxation			(5,069)	(3,274)
Tax Expense			(109)	(174)
Profit / (loss) after taxation			<u>(5,178)</u>	<u>(3,448)</u>

A10. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment during the period under review.

A11. Material Events Subsequent to the End of the Interim Period

There were no material events subsequent to the end of the interim period that have not been reflected in this interim financial report.

A12. Changes in Composition of the Group

There were no changes in the composition of the Group for the current financial period.

A13. Changes in Contingent Assets and Contingent Liabilities

There were no contingent assets or contingent liabilities of the Group since the last annual balance sheet date.

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B. Additional Notes Pursuant to the ACE Market Listing Requirements For The Third Quarter Ended 31 March 2020

B1. Review of Performance

Manufacturing Division

	<u>Quarter ended</u>		<u>Year to date</u>	
	31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Mar 2019
	RM'000	RM'000	RM'000	RM'000
Revenue	3,542	1,596	10,480	7,192
Profit / (Loss) after tax	(2,415)	(1,655)	(4,403)	(2,344)

The manufacturing division's revenue for current quarter increased to RM3.54 million compared to RM1.59 million in previous corresponding quarter, mainly due to higher sales volume. This division posted loss after tax at RM2.41 million for current quarter compared to loss of RM1.65 million in previous corresponding quarter mainly due to higher operational expenses arising from additional workforce, depreciation and finance costs.

For 9 months period ended 31 March 2020, revenue increased by 45.7% to RM10.48 million mainly due to higher sales volume. This division posted loss after tax at RM4.40 million for current period compared to loss of RM2.34 million in previous corresponding period, mainly due to higher operational expenses arising from additional workforce, depreciation and finance costs.

Plantation Division

	<u>Quarter ended</u>		<u>Year to date</u>	
	31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Mar 2019
	RM'000	RM'000	RM'000	RM'000
Revenue	1,382	1,909	4,373	4,722
Profit / (Loss) after tax	(381)	2	(559)	(886)
FFB Production (MT)	2,767	5,297	10,218	12,723
Average FFB price (RM)	499	360	428	371

Plantation division's revenue for current quarter decreased by 27.6% to RM1.38 million compared to RM1.91 million in previous corresponding quarter. Current quarter's FFB production decreased by 47.8%, while average FFB price increased by 38.6%. As comparing with results in previous corresponding quarter, this division posted a loss after tax at RM0.38 million in current quarter even with significant drop in FFB production mainly due to much higher average FFB price.

For 9 months period ended 31 March 2020, revenue decreased by 7.4% to RM4.37 million. This was mainly due to decrease in FFB production. Despite lower revenue recorded for the period, this division posted lower loss after tax at RM0.56 million compared to loss of RM0.89 million in previous corresponding period. The effect of lower FFB production for the period was cushioned by higher average FFB price by 15.4%.

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B2. Variation of Results against Immediate Preceding Quarter

Manufacturing division

	Individual quarter ended	
	31 Mar 2020 RM'000	31 Dec 2019 RM'000
Revenue	3,542	3,296
Profit / (Loss) after tax	(2,415)	(1,153)

The manufacturing division's revenue for current quarter increased to RM3.54 million compared to RM3.29 million in immediate preceding quarter ended 31 December 2019, mainly due to higher sales volume. Current quarter's loss after tax was RM2.41 million mainly due to higher labour costs incurred in preparation for higher planned production capacity and related activities but did not fully achieve these initiatives as a result of COVID-19 outbreak causing disruption in supply chain and Movement Control Order imposed by the government.

Plantation division

	Individual quarter ended	
	31 Mar 2020 RM'000	31 Dec 2019 RM'000
Revenue	1,382	1,621
Profit / (Loss) after tax	(381)	(39)

The plantation division recorded lower revenue at RM1.38 million for current quarter under review compared to RM1.62 million in immediate preceding quarter. This was mainly due to decrease in FFB production.

Changes in average FFB price and FFB production are shown below:

	Individual quarter ended		
	31 Mar 2020	31 Dec 2019	Variance
Average FFB price (RM)	499	449	11.1%
FFB Production (MT)	2,767	3,611	(23.4%)

This division registered loss after tax at RM0.38 million mainly due to lower FFB production.

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B3. Prospects

Manufacturing division

The most significant factor affecting this division's future performance will be the unprecedented outbreak of COVID-19 (coronavirus) pandemic. At macroeconomic perspective, global supply chains have been disrupted. Our manufacturing output will be affected in the coming months due to changes in consumer and industrial spending. Following the outbreak of COVID-19 in Malaysia, our plants were shut down on 18 March 2020 due to the Movement Control Order ("MCO") implemented by the government as a preventive measure towards containment of the pandemic. Subsequently, Scope Manufacturers (M) Sdn Bhd obtained approval on 1 April 2020 from Ministry of International Trade and Industry ("MITI") to operate only at 50% of its manpower capacity. During the MCO period, we worked hard and consciously to ensure the operations were moving swiftly plus maximising the productivity in view of limited manpower and constraints by external factors. On 29 April 2020, MITI allowed certain economic sectors to operate without any restriction but subject to certain standard operation procedures ("SOP") as imposed earlier by the Government. With relaxation of MCO by the Government, the company's manufacturing division was back with full workforce on 30 April 2020.

The eventual impact to this division cannot be ascertained with certainty as its performance will very much dependent on the scale and length of the COVID-19 pandemic and availability of vaccine. We are anticipating a very challenging business environment moving forward. Nevertheless, we remain confident as we have strategies to weather the storm arising from COVID-19 outbreak.

Plantation division

The performance of this division would continue to be driven by FFB production and CPO price fluctuation which is dependent on the world edible oils market. As FFB price is not controllable, the plantation division management would continuously focus on improving crop yield for all harvesting area.

B4. Variance from Profit Forecast and Profit Guarantee

The Group has not provided any profit forecast or profit guarantee in public document.

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B5. Taxation

Current Year
to-date
31 Mar 2020
RM'000

Based on results for the period:

Current tax expense	<u>109</u>
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For the financial period ended 31 March 2020, the Group reported tax expense despite having loss before tax as certain subsidiary registered profitable results.

B6. Status of Corporate Proposal

There was no corporate proposal announced but not completed as at the date of this report.

B7. Group Borrowings and Debt Securities

	As at 31 March 2020 RM'000
<u>Short term</u>	
- Hire purchase	1,680
<u>Long term</u>	
- Hire purchase	4,311
Total borrowing	<u>5,991</u>

B8. Material Litigation

As at the date of this report, the Group does not have any pending material litigation.

B9. Dividend

No dividend has been recommended for the current quarter under review.

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B10. Earnings / (Loss) Per Share

(i) Basic earnings / (loss) per share

The basic earnings per share is calculated by dividing the net profit/(loss) attributable to shareholders for the financial period by the weighted average number of ordinary shares in issue.

	Quarter		Year to date	
	31.3.2020	31.3.2019	31.3.2020	31.3.2019
Net profit/(loss) attributable to owners of the Company (RM'000)	(2,749)	(1,785)	(4,919)	(3,270)
Weighted average number of ordinary shares in issue ('000)	623,242	563,095	623,242	563,095
Basic earnings / (loss) per share (sen)	(0.44)	(0.32)	(0.79)	(0.58)

(ii) Diluted earnings / (loss) per share

The calculation of diluted earnings per share was based on profit attributed to shareholders of the Company and on the weighted average number of shares outstanding after adjustment for the effects of all dilutive potential ordinary shares as follows:

	Quarter		Year to date	
	31.3.2020	31.3.2019	31.3.2020	31.3.2019
Net profit/(loss) attributable to owners of the Company (RM'000)	(2,749)	(1,785)	(4,919)	(3,270)
Weighted average number of ordinary shares in issue ('000)	623,242	563,095	623,242	563,095
Dilutive effect of warrants outstanding ('000)	3,096	15,514	3,096	15,514
Diluted earnings / (loss) per share (sen)	(0.44)	(0.31)	(0.79)	(0.57)