

SCOPE

Scope Industries Berhad
(Company No: 591376-D)

A. Notes to the Interim Financial Report For The Fourth Quarter Ended 30 June 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 financial year.

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 issuance of share capital during current financial year:-

- 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.
- ii) Pursuant to conversion of warrant by warrant holders in April 2020, a total of 32,325,400 units of ordinary shares were allotted on 2 April 2020.

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

A9. Segment Information

| | Year to date Revenue | | Year to date Operating profit / (loss) | |
|---------------------------------|-------------------------|------------------------|---|------------------------|
| | 30 June 2020 RM'000 | 30 June 2019 RM'000 | 30 June 2020 RM'000 | 30 June 2019 RM'000 |
| Holding company and group level | 385 | 162 | (20,464) | (399) |
| Manufacturing | 13,252 | 9,127 | (4,854) | (3,942) |
| Plantation | 6,301 | 6,262 | (205) | (920) |
| | <u>19,938</u> | <u>15,551</u> | <u>(25,523)</u> | <u>(5,261)</u> |
| Less : Elimination | <u>(300)</u> | <u>-</u> | <u>(300)</u> | <u>-</u> |
| | <u>19,638</u> | <u>15,551</u> | | |
| Operating profit/(loss) | | | (25,823) | (5,261) |
| Interest income | | | 109 | 173 |
| Finance cost | | | (381) | (121) |
| | | | <u>(26,095)</u> | <u>(5,209)</u> |
| Profit / (loss) before taxation | | | (26,095) | (5,209) |
| Tax Expense | | | (66) | 122 |
| Profit / (loss) after taxation | | | <u>(26,161)</u> | <u>(5,087)</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.

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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.

B. Additional Notes Pursuant to the ACE Market Listing Requirements For The Fourth Quarter Ended 30 June 2020

B1. Review of Performance

Manufacturing Division

| | <u>Quarter ended</u> | | <u>Year to date</u> | |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2020 RM'000 | 30 June 2019 RM'000 | 30 June 2020 RM'000 | 30 June 2019 RM'000 |
| Revenue | 2,772 | 1,935 | 13,252 | 9,127 |
| Profit / (Loss) after tax | (822) | (1,703) | (5,225) | (4,047) |

The manufacturing division's revenue for current quarter increased to RM2.77 million compared to RM1.94 million in previous corresponding quarter, mainly due to higher sales volume. As compared to previous corresponding quarter, loss after tax for this quarter has been narrowed to RM0.82 million mainly due to higher revenue generated.

For current financial year ended 30 June 2020, revenue increased by 45.2% to RM13.25 million mainly due to higher sales volume. This division posted loss after tax at RM5.23 million for current financial year compared to loss of RM4.05 million in previous corresponding year, mainly due to higher operational expenses arising from additional workforce, depreciation and finance costs. Current year's operation has been adversely affected by outbreak of Covid-19 pandemic, especially during the quarter ended 31 March 2020 whereby high labour costs were incurred in preparation for running production with planned shipment to overseas customer but our production schedule was negatively affected due to Covid-19 outbreak.

Plantation Division

| | <u>Quarter ended</u> | | <u>Year to date</u> | |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2020 RM'000 | 30 June 2019 RM'000 | 30 June 2020 RM'000 | 30 June 2019 RM'000 |
| Revenue | 1,928 | 1,540 | 6,301 | 6,262 |
| Profit / (Loss) after tax | 218 | (108) | (341) | (798) |
| FFB Production (MT) | 4,736 | 4,415 | 14,955 | 17,138 |
| Average FFB price (RM) | 407 | 349 | 421 | 365 |

Plantation division's revenue for current quarter increased by 25.2% to RM1.93 million compared to RM1.54 million in previous corresponding quarter. Current quarter's FFB production increased by 7.2%, while average FFB price increased by 16.6%. As a result

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of these factors, this division posted profit after tax of RM0.22 million for current quarter under review.

For current financial year ended 30 June 2020, revenue increased by 0.6% to RM6.30 million. Current year's FFB production decreased by 12.7% while average FFB price increased by 15.3%. Loss after tax for this division has been narrowed to RM0.34 million mainly due to higher average FFB price.

Group Level

During the current quarter under review, the Group has impaired goodwill at group level, amounted to RM20.4 million. This is in relation to one of our subsidiary, namely Pioneer Glow Sdn. Bhd.

Goodwill has been allocated to the respective cash-generating unit ("CGU"), which represents the following subsidiaries in the plantation segment:-

| | Group level | |
|-------------------------|------------------------|------------------------|
| | 30 June 2020 RM'000 | 30 June 2019 RM'000 |
| Pioneer Glow Sdn. Bhd. | 11,737 | 32,137 |
| Benua Mutiara Sdn. Bhd. | 2,829 | 2,829 |
| | <hr/> | <hr/> |
| | 14,566 | 34,966 |

Pioneer Glow Sdn Bhd ("PGSB")

The recoverable amount of this CGU for the current financial year under review has been determined based on fair value less cost of disposal that was in turn based on management estimates having regard to estimated resale value which is recommended by an independent professional valuer as well as considering the negative outlook of the economic situation as a result of the Covid-19 pandemic.

After making an assessment on goodwill impairment evaluation, the current recoverable amount is lesser than the carrying value of CGU by RM20.4 million. As such, impairment charges of RM20.4 million has been made on the goodwill. The impairment charges are included in administrative expenses.

B2. Variation of Results against Immediate Preceding Quarter

Manufacturing division

| | Individual quarter ended | |
|---------------------------|--------------------------|-----------------------|
| | 30 June 2020 RM'000 | 31 Mar 2020 RM'000 |
| Revenue | 2,772 | 3,542 |
| Profit / (Loss) after tax | (822) | (2,415) |

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The manufacturing division's revenue for current quarter decreased to RM2.77 million compared to RM3.54 million in immediate preceding quarter ended 31 March 2020, mainly due to lower sales volume. Current quarter's loss after tax was narrowed to RM0.82 million compared to loss of RM2.42 million in immediate preceding quarter. High labour costs were incurred in the quarter ended 31 March 2020 in preparation for higher planned production activities but did not fully achieve production plan as a result of Covid-19 outbreak. In current quarter under review, the Management took a swift action to re-adjust our operational expenses in order to contain our costs.

Plantation division

| | Individual quarter ended | |
|---------------------------|--------------------------|-----------------------|
| | 30 June 2020 RM'000 | 31 Mar 2020 RM'000 |
| Revenue | 1,927 | 1,382 |
| Profit / (Loss) after tax | 218 | (381) |

The plantation division recorded higher revenue at RM1.93 million for current quarter under review compared to RM1.38 million in immediate preceding quarter. This was due to higher FFB production.

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

| | Individual quarter ended | | |
|------------------------|--------------------------|-------------|----------|
| | 30 Jun 2020 | 31 Mar 2020 | Variance |
| Average FFB price (RM) | 407 | 499 | (18.4%) |
| FFB Production (MT) | 4,736 | 2,767 | 71.2% |

This division registered profit after tax at RM0.22 million mainly due to higher FFB production.

B3. Prospects

Manufacturing division

The most significant factor affecting this division would be the Covid-19 pandemic, causing disruption to global supply chains, business and society.

Following the outbreak of Covid-19 in Malaysia in March 2020, 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

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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 operating 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. Our output for the current quarter ended 30 June 2020 was seriously affected due to disruption to sales order and supply chains.

Moving forward to July 2020, this operation has recovered much from the initial happening of Covid-19 pandemic. Our current strategy is to focus on efficiency in production process as well as cost control measures in order to deliver improved results.

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 and fluctuates in tandem with CPO price fluctuation, 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.

B5. Taxation

| | Current Year to-date 30 June 2020 RM'000 |
|--------------------------------|---|
| Based on results for the year: | |
| Current tax | 260 |
| Deferred tax | (207) |
| | <hr/> |
| | 53 |
| Underprovision in prior year | 13 |
| | <hr/> |
| Current tax expense | <hr/> <hr/> 66 |

For the financial year ended 30 June 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.

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B7. Group Borrowings and Debt Securities

| | As at 30 June 2020 RM'000 |
|-------------------|---------------------------------|
| <u>Short term</u> | |
| - Hire purchase | 1,915 |
| <u>Long term</u> | |
| - Hire purchase | 3,622 |
| Total borrowing | <u>5,537</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.

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 | |
|--|-----------|-----------|--------------|-----------|
| | 30.6.2020 | 30.6.2019 | 30.6.2020 | 30.6.2019 |
| Net profit/(loss) attributable to owners of the Company (RM'000) | (23,767) | (1,569) | (28,686) | (4,839) |
| Weighted average number of ordinary shares in issue ('000) | 623,242 | 577,548 | 623,242 | 577,548 |
| Basic earnings / (loss) per share (sen) | (3.81) | (0.27) | (4.60) | (0.84) |

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(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 | |
|--|-----------|-----------|--------------|-----------|
| | 30.6.2020 | 30.6.2019 | 30.6.2020 | 30.6.2019 |
| Net profit/(loss) attributable to owners of the Company (RM'000) | (23,767) | (1,569) | (28,686) | (4,839) |
| Weighted average number of ordinary shares in issue ('000) | 623,242 | 577,548 | 623,242 | 577,548 |
| Dilutive effect of warrants outstanding ('000) | 4,716 | 22,315 | 4,716 | 22,315 |
| Diluted earnings / (loss) per share (sen) | (3.78) | (0.26) | (4.57) | (0.81) |