

SERN KOU RESOURCES BERHAD

(Company No.519103-X)

FIRST QUARTER ENDED 30 SEPTEMBER 2018

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	Individual Quarter		Cumulative Quarter	
	Current Quarter 30-Sep-18 RM'000	Preceding Year Corresponding Quarter 30-Sep-17 RM'000	Current Year To-date 30-Sep-18 RM'000	Preceding Year Corresponding Period 30-Sep-17 RM'000
Revenue	57,809	36,915	57,809	36,915
Cost of sales	(52,339)	(32,129)	(52,339)	(32,129)
Gross profit	5,470	4,786	5,470	4,786
Other income	334	356	334	356
Selling and distribution expenses	(851)	(510)	(851)	(510)
Administrative expenses	(1,812)	(1,710)	(1,812)	(1,710)
Other expenses	(99)	(148)	(99)	(148)
Finance Costs	(1,058)	(680)	(1,058)	(680)
Profit before taxation	1,984	2,094	1,984	2,094
Income tax expense	(197)	(368)	(197)	(368)
Profit after taxation	1,787	1,726	1,787	1,726
Other Comprehensive Income	-	-	-	-
Total Comprehensive income for the financial period	1,787	1,726	1,787	1,726
Profit after taxation attributable to:-				
-Owner of the Company	1,784	1,719	1,784	1,719
-Non-controlling interest	3	7	3	7
	1,787	1,726	1,787	1,726
Total Comprehensive Income Attributable to:-				
-Owner of the Company	1,784	1,719	1,784	1,719
-Non-controlling interest	3	7	3	7
	1,787	1,726	1,787	1,726
Earnings Per Share				
-Basic (Sen)	0.74	1.44	0.74	1.44
-Diluted (Sen)	0.63	N/A*	0.63	N/A*

* There is no diluted earning per share as the end of the quarter and financial period ended 30 September 2017 as it is anti-dilutive.

N/A = not applicable

The unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited Financial Statements for year ended 30 June 2018 and the accompanying explanatory notes attached to the interim financial statements.

SERN KOU RESOURCES BERHAD

(Company No.519103-X)

FIRST QUARTER ENDED 30 SEPTEMBER 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 30 SEPTEMBER 2018**

	As at End of Current Quarter 30-Sep-18 (Unaudited)	As at Preceding Financial Year End 30-Jun-18 (Audited)
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant & equipment	61,638	59,965
Investment Property	2,385	2,402
Current assets		
Inventories	18,093	17,150
Trade receivables	57,251	36,805
Other receivables, deposits and prepayments	12,484	19,001
Tax refundable	211	262
Cash and bank balances	5,724	16,362
	<u>93,763</u>	<u>89,580</u>
Total assets	<u>157,786</u>	<u>151,947</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	60,000	60,000
Retained profits	17,420	15,636
Minority interest	779	776
TOTAL EQUITY	<u>78,199</u>	<u>76,412</u>
Non-current liabilities		
Long-term borrowings	19,978	19,903
Deferred tax liabilities	1,223	1,223
	<u>21,201</u>	<u>21,126</u>
Current liabilities		
Trade payables	11,051	8,979
Other payables and accruals	3,301	4,522
Derivative liabilities	-	59
Provision for taxation	1,617	1,561
Short-term borrowings	42,417	39,288
	<u>58,386</u>	<u>54,409</u>
Total liabilities	<u>79,587</u>	<u>75,535</u>
TOTAL EQUITY AND LIABILITIES	<u>157,786</u>	<u>151,947</u>
Net assets per share (RM)	<u>0.33</u>	<u>0.32</u>

The unaudited Condensed Statement of Financial Position should be read in conjunction with the audited Financial Statements for year ended 30 June 2018 and the accompanying explanatory notes attached to the interim financial statements.

SERN KOU RESOURCES BERHAD

(Company No.519103-X)

FIRST QUARTER ENDED 30 SEPTEMBER 2018

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	Share Capital	Retained Profits	Non- Controlling interest	Total
	RM'000	RM'000	RM'000	RM'000
For the period ended 30 September 2018				
Balance at 1.7.2018	60,000	15,636	776	76,412
Profit after taxation/total comprehensive income for the financial period	-	1,784	3	1,787
Balance at 30.9.2018	60,000	17,420	779	78,199
For the year ended 30 September 2017				
Balance at 1.7.2017	60,000	6,552	741	67,293
Profit after taxation/total comprehensive income for the financial period	-	1,719	7	1,726
Balance at 30.9.2017	60,000	8,271	748	69,019

The unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited Financial Statements for period ended 30 June 2018 and the accompanying explanatory notes attached to the interim financial statements.

SERN KOU RESOURCES BERHAD

(Company No.519103-X)

FIRST QUARTER ENDED 30 SEPTEMBER 2018

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	Current Year To-date 30-Sep-18 RM'000	Preceding Year Corresponding Period 30-Sep-17 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,984	2,094
Adjustments for:		
Depreciation of property, plant & equipment	808	737
Gain on disposal of property, plant & machinery	-	(69)
Interest expense	1,011	680
Interest income	-	(20)
Operating profit before working capital changes	<u>3,803</u>	<u>3,422</u>
Changes in working capital:		
Inventories	(943)	(3,001)
Trade and other receivables	(13,929)	(7,879)
Trade and other payables	792	(1,714)
Cash used in operations	<u>(10,277)</u>	<u>(9,172)</u>
Income tax paid	(89)	(352)
Net cash used in operating activities	<u>(10,366)</u>	<u>(9,524)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	-	20
Purchase of property, plant and equipment	(2,629)	(1,096)
Proceeds from disposal of property, plant and equipment	165	78
	<u>(2,464)</u>	<u>(998)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(1,011)	(680)
Net drawdown/(repayment) of hire purchase obligations	1,416	(378)
Net (repayment)/drawdown of bankers' acceptances	(624)	3,724
Net drawdown/(repayment) of term loans	2,202	(1,600)
Net cash generated from financing activities	<u>1,983</u>	<u>1,066</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(10,847)</u>	<u>(9,456)</u>
Effect of exchange rate changes on cash and cash equivalents	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	<u>8,954</u>	<u>10,875</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	<u><u>(1,893)</u></u>	<u><u>1,419</u></u>
CASH AND CASH EQUIVALENTS COMPRISE:-		
Cash and bank balances	5,724	3,426
Bank overdrafts	(7,617)	(2,007)
	<u><u>(1,893)</u></u>	<u><u>1,419</u></u>

The unaudited Condensed Statement of Cash Flow should be read in conjunction with the audited Financial Statements for year ended 30 June 2018 and the accompanying explanatory notes attached to the interim financial statements.

A. EXPLANATORY NOTES

A1. Basis of Preparation

The interim financial statements of the Group are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRSs'), International Financial Reporting Standards ('IFRSs') and the provisions of the Companies Act 2016 in Malaysia and paragraph 9.22 of the 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 year ended 30 June 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 30 June 2018.

A2. Accounting Policies

The significant accounting policies adopted by the Group in this interim financial statements are consistent with those adopted in the financial statements for the financial year ended year ended 30 June 2018 except for the newly-issued Malaysian Accounting Standards Board approved accounting framework – MFRS and IC Interpretations to be applied by all Entities Other Than Private Entities for the financial period beginning on 1 January 2018. The adoption of the abovementioned MFRS, Amendments to MFRS and Interpretations will have no material impact on the financial statements of the Group upon their initial application.

A3. Auditors' Report on the Most Recent Audited Financial Statements

The auditors' report on the most recent audited financial statements was not subject to any qualification.

A4. Seasonality or Cyclical Factors

The performance of the Group is generally not affected by any seasonal or cyclical factors.

A5. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

A6. Changes in Estimates

There were no major changes in estimates that had a material effect in the current quarter.

A7. Issuance, Cancellations, Repurchase, Resale and Repayment of Debt and Equity Securities

There were no issuance or repayment of debt and equity securities, share buy-back, share cancellations and sale of treasury for the financial period under review.

A8. Dividend

There was no dividend paid for the financial period under review.

A9. Segmental & Geographical Reporting

Geographical segment has not been presented as the Group operates wholly in Malaysia.

Business Segment	Others RM'000	Manufacturing RM'000	Kiln Drying and Saw Mill RM'000	Processing and Trading RM'000	Inter- Company Elimination RM'000	Total RM'000
30.9.2018						
Revenue						
External sales	-	17,273	33,936	6,600	-	57,809
Inter-segment sales	258	107	366	1,686	(2,417)	-
	<u>258</u>	<u>17,380</u>	<u>34,302</u>	<u>8,286</u>	<u>(2,417)</u>	<u>57,809</u>
Results						
Profit/(loss) before taxation	50	(141)	1,218	857	-	1,984
Income tax expense	(20)	(96)	(71)	(10)	-	(197)
Profit/(loss) after taxation	<u>30</u>	<u>(237)</u>	<u>1,147</u>	<u>847</u>	<u>-</u>	<u>1,787</u>

A10. Valuation of Property, Plant and Equipment Brought Forward

There was no revaluation of property, plant and equipment for the current quarter.

A11. Material Subsequent Events

There were no material events subsequent to the financial period under review.

A12. Changes in the Composition of the Group

There were no changes in the composition of the Group in the financial period under review.

A13. Contingent Liabilities and Capital Commitments

Since the last annual statement of financial position as at 30 June 2018, there were no material changes in contingent liabilities for the Group as at the date of this report. The changes in contingent liabilities of the Company are as follows:

	Company	
	As at 30.9.2018 RM'000	As at 30.9.2017 RM'000
Contingent Liabilities		
Corporate guarantees given to licensed banks for banking facilities granted to subsidiaries	<u>56,957</u>	<u>35,750</u>

	Group	
	As at 30.9.2018 RM'000	As at 30.9.2017 RM'000
	=	=

Capital Commitment

The Group has entered into sales and purchase agreement for land and building, plant and machinery resulting in future commitments

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B. SELECTED EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF BURSA MALAYSIA LISTING REQUIREMENTS

B1. Financial review for current quarter and financial year to date

	Individual quarter		Changes (Amount/ %)	Cumulative		Changes (Amount/ %)
	Current year Quarter	Preceding year Quarter		Current Year To- date	Preceding Year To- date	
	30.9.2018	30.9.2017		30.9.2018	30.9.2017	
	RM'000	RM'000	RM'000/%	RM'000	RM'000	RM'000/%
Revenue	57,809	36,915	20,894 57%	57,809	36,915	20,894 57%
Operating Profit	5,470	4,786	684 14%	5,470	4,786	684 14%
Profit Before Interest and Tax	3,042	2,774	268 10%	3,042	2,774	268 10%
Profit Before Tax	1,984	2,094	(110) -5%	1,984	2,094	(110) -5%
Profit After Tax	1,787	1,726	61 4%	1,787	1,726	61 4%
Profit attributable to Ordinary Equity Holders of the Company	1,784	1,719	65 4%	1,784	1,719	65 4%

In the first quarter of the financial year ended 30 September 2018, the Group recorded revenue of RM58 million compared to revenue of RM37 million recorded in the preceding corresponding quarter ended 30 September 2017. The revenue increased by 57% as a result of higher demands from all segments.

The profit before tax decreased by 5% from profit before tax of RM2 million recorded in the preceding quarter ended 30 September 2017. The decreased in profit before tax is mainly attributable to higher borrowing cost.

Segmental Breakdown of Revenue & Profit/(Loss)

	Year to Date		Individual Quarter	
	30.9.2018 RM'000	30.9.2017 RM'000	30.9.2018 RM'000	30.9.2017 RM'000
Revenue				
Manufacturing	17,273	11,178	17,273	11,178
Kiln Drying and Saw Mill	33,936	21,491	33,936	21,491
Processing and Trading	6,600	4,246	6,600	4,246
Group	57,809	36,915	57,809	36,915
Profit/ (Loss) before tax				
Manufacturing	(141)	238	(141)	238
Kiln Drying and Saw Mill	1,218	264	1,218	264
Processing and Trading	857	1,557	857	1,557
Others	50	35	50	35
Group	1,984	2,094	1,984	2,094

B1. Financial review for current quarter and financial year to date (Continued)

In the first quarter of the financial year period 30 September 2018, the Group recorded revenue and profit before tax of RM58 million and RM2 million respectively compared to RM37 million and profit before tax of RM2.1 million respectively recorded in the preceding corresponding quarter ended 30 September 2017. The revenue increased by 57% as a result of higher demands from all segments.

The profit before tax registered at RM2 million was mainly contributed by Kiln Drying and Saw Mill segment amounting to RM1.2 million for the financial period ended 30 June 2018.

Manufacturing

Manufacturing segment, which consists of manufacturing of wooden furniture and plywood registered revenue of RM17 million for the quarter under review compared to RM11 million registered in preceding corresponding quarter. The segment recorded a loss before tax of RM141,000 as compared to profit before tax of RM238,000 recorded at the quarter ended 30 September 2017. The result mainly affected by the pressure of high operating costs, particularly on raw material and labour costs.

Kiln Drying and Saw Mill

For the quarter under review, the segment recorded sales of RM34 million and profit before tax of RM1.2 million as compared to prior corresponding quarter ended 30 September 2017 which registered its sales at RM21 million and profit before tax of RM264,000. The increase in profit before tax was mainly due to increase in sales demand and improve in production efficiency.

Processing and Trading

The segment's sales for the quarter has increased from RM4 million to RM6.6 million as compared to preceding corresponding period ended 30 September 2017. The segment however, recorded a lower profit before tax of RM857,000 compared to profit before tax of RM1.5 million in preceding corresponding quarter. The decrease in profit before tax mainly contributed from the rise of operating cost and higher borrowing cost.

B2. Financial review for current quarter compared with immediate preceding quarter

	Current quarter	Immediate Preceding Quarter	Change (Amount/%)
	30.9.2018 RM'000	30.6.2018 RM'000	RM'000/%
Revenue	57,809	48,493	9,316 19%
Operating profit	5,470	4,665	805 17%
Profit before interest and tax	3,042	2,232	810 36%
Profit before tax	1,984	1,463	521 36%
Profit after tax	1,787	28	1,759 6282%
Profit attributable to Ordinary Equity Holders of the Company	1,784	(144)	1,928 1339%

Individual Quarter

	30.9.2018 RM'000	30.6.2018 RM'000
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Revenue

Manufacturing	17,273	15,726
Kiln Drying and Saw Mill	33,936	24,243
Processing and Trading	6,600	8,524
Group	57,809	48,493

Profit/ (Loss) before tax

Manufacturing	(141)	(2,321)
Kiln Drying and Saw Mill	1,218	1,174
Processing and Trading	857	2,144
Others	50	466
Group	1,984	1,463

The Group recorded revenue and profit before tax of RM58 million and RM2 million for the financial quarter ended 30 September 2018, compared to revenue of RM48 million and profit before tax of RM1.5 million recorded in the immediate preceding quarter ended 30 June 2018. The increase in revenue is mainly due to higher sales volume as demand for timber, wood and related products increases.

The increased in the group's profit before tax is due to the increase in production efficiency.

B3. Prospects

The Group anticipates the operating environment will remain challenging in the coming financial periods. The Group will continue to sustain its competitive edge in order to achieve a satisfactory performance in the coming periods.

B4. Profit Forecast

There is no profit forecast for the current financial period under review.

SERN KOU RESOURCES BERHAD (Company No.519103-X)
 FIRST QUARTER ENDED 30 SEPTEMBER 2018

B5. Taxation

	Current Quarter RM '000	Current Year to Date RM '000
Current taxation	197	197

B6. Status of Corporate Proposals

There were no corporate proposals announced for the current quarter.

B7. Group Borrowings and Debt Securities

The Group's borrowings as at 30 September 2018 are as follows:

As at 30.9.2018	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	19,553	19,553
Bank Overdrafts	-	7,617	7,617
Hire Purchases	2,860	2,579	5,439
Term Loans	17,118	12,668	29,786
Total	19,978	42,417	62,395

As at 30.9.2017	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	20,979	20,979
Bank Overdrafts	-	2,007	2,007
Hire Purchases	2,598	1,111	3,709
Term Loans	9,710	3,054	12,764
Total	12,308	27,151	39,459

B8. Material Litigation

The Group did not engage in any material litigation for the current financial period to date.

B9. Dividend payable

There is no final dividend proposed for the financial period under review.

SERN KOU RESOURCES BERHAD (Company No.519103-X)
FIRST QUARTER ENDED 30 SEPTEMBER 2018

B10. Earnings per Share

The earnings per share for the current quarter and financial period ended 30 September 2018 are as follows:-

	Current Quarter	Current Year To Date
(a) Basic		
Profit attributable to owners of the Company (RM '000)	1,784	1,784
Weighted average number of ordinary shares in issue ('000)	240,000	240,000
Basic Earnings per ordinary share (Sen)	0.74	0.74
(b) Diluted		
Profit attributable to owners of the Company (RM '000)	1,784	1,784
Weighted average number of ordinary shares in issue ('000)	240,000	240,000
Effect of conversion of warrants ('000)	43,200	43,200
Adjusted weighted average number of ordinary shares in issue ('000)	283,200	283,200
Diluted Earnings per ordinary share (Sen)	0.63	0.63

In the event that the potential exercise of the Warrants gives rise to an anti dilutive effect on loss per share, the potential exercise of the Warrants is not taken into account in calculating diluted loss per share.

B11. Notes to Comprehensive Income Statement

The following items have been included in the Statement of Comprehensive Income:-

	Individual Quarter Ended 30.9.2018 RM'000	Year to date Ended 30.9.2018 RM'000
After Charging:-		
Interest Expenses	1,058	1,058
Depreciation	808	808
Foreign exchange loss – Unrealised	96	96
After Crediting:-		
Rental income	297	297
Foreign exchange gain – Realised	133	133

B12. Significant Related Party Transactions

During the financial year under review, there were no significant related party transactions.

B13. Authorisation for Issue

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