

A. EXPLANATORY 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 30 June 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 year ended 30 June 2019.

A2. Accounting Policies

The accounting policies and presentation adopted for this interim financial statements are consistent with those adopted in the audited financial statements for the year ended 30 June 2019 except for the adoption of the following MFRS :

MFRS 16 *Leases*

MFRS 16 replaces the guidance in MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases – Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items whereby a lessee may elect to recognise the lease payments as expense in the profit or loss on a straight-line basis over the lease term. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

(i) **Leases in which the Group is a lessee**

The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group applies MFRS 16 initially on 1 July 2019, using modified retrospective approach.

The financial effects of the adoption of MFRS 16 are as below:

	Group 1.7.2019 RM'000
Consolidated statement of financial position	
Right of use assets	717
Lease liabilities	735
Adjustments to retained profits	<u>(18)</u>

(ii) **Leases in which the Group is a lessor**

No significant impact is expected for leases in which the Group is a lessor.

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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 and 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, Lamination and Sawmill RM'000	Processing and Trading of Wood RM'000	Inter- Company Elimination RM'000	Total RM'000
30.9.2019						
Revenue						
External sales	-	23,973	47,368	7,563	-	78,904
Inter-segment sales	318	-	319	944	(1,581)	-
	318	23,973	47,687	8,507	(1,581)	78,904
Results						
Profit before taxation	74	816	4,577	1,452	-	6,919
Taxation	(15)	(31)	(526)	(187)	-	(759)
Profit after taxation	59	785	4,051	1,265	-	6,160

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A10. Valuation of Property, Plant and Equipment

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements as the Group does not adopt a revaluation policy on its property, plant and equipment.

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 2019, 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 30.9.2019	As at 30.9.2018
<u>Contingent Liabilities</u>	RM'000	RM'000
Corporate guarantees given to licensed banks for banking facilities granted to subsidiaries	<u>68,294</u>	<u>56,957</u>

	Group	
	As at 30.9.2019	As at 30.9.2018
	RM'000	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			Cumulative		
	Current Year Quarter	Preceding Year Quarter	Changes (Amount/%)	Current Year To-date	Preceding Year To-date	Changes (Amount/%)
	30.9.2019 RM'000	30.9.2018 RM'000	RM'000/%	30.9.2019 RM'000	30.9.2018 RM'000	RM'000/%
Revenue	78,904	57,809	21,095 36%	78,904	57,809	21,095 36%
Operating Profit	10,671	5,470	5,201 95%	10,671	5,470	5,201 95%
Profit Before Interest and Taxation	8,006	3,042	4,964 163%	8,006	3,042	4,964 163%
Profit Before Taxation	6,919	1,984	4,935 249%	6,919	1,984	4,935 249%
Profit After Taxation	6,160	1,787	4,373 245%	6,160	1,787	4,373 245%
Profit attributable to Ordinary Equity Holders of the Company	6,154	1,784	4,370 245%	6,154	1,784	4,370 245%

In the first quarter ended 30 September 2019, the Group recorded revenue of RM79 million compared to revenue of RM58 million recorded in the prior year corresponding quarter ended 30 September 2018. The revenue increased by 36% as the result of increased in demand for tropical wood in the kiln drying, lamination and sawmill segment.

The profit before taxation rose by RM4.9 million from RM2 million recorded in 30 September 2018 to RM6.9 million for financial quarter ended 30 September 2019. The operating result was mainly attributable to higher profit arising from the kiln drying, lamination and sawmill segment.

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

Segmental Breakdown of Revenue and Profit or Loss

	Year to Date		Individual Quarter	
	30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Revenue				
Manufacturing	23,973	17,273	23,973	17,273
Kiln Drying, Lamination and Sawmill	47,368	33,936	47,368	33,936
Processing and Trading of Wood	7,563	6,600	7,563	6,600
Group	78,904	57,809	78,904	57,809
Profit/(Loss) before taxation				
Manufacturing	816	(141)	816	(141)
Kiln Drying, Lamination and Sawmill	4,577	1,218	4,577	1,218
Processing and Trading of Wood	1,452	857	1,452	857
Others	74	50	74	50
Group	6,919	1,984	6,919	1,984

In the first quarter ended 30 September 2019, the Group recorded revenue and profit before taxation of RM79 million and RM6.9 million respectively compared to RM58 million and RM2 million recorded in the prior year corresponding quarter.

The increase in profit before taxation of RM4.9 million from the prior year corresponding period to RM6.9 million was mainly contributed by kiln drying, lamination and sawmill segment where the profit before taxation for this segment has increased by RM3.3 million to RM4.6 million. The manufacturing segment has also made a turnaround from loss before taxation of RM141,000 in the prior year corresponding quarter to profit before taxation of RM816,000 in the current quarter under review.

Manufacturing

Manufacturing segment, which consists of manufacturing of wooden furniture and plywood recorded revenue of RM24 million for the quarter under review compared to RM17 million recorded in prior year corresponding quarter. The segment recorded profit before taxation of RM816,000 as the result from higher revenue and improved in production efficiency in current quarter. The segment registered loss before taxation of RM141,000 in prior year corresponding quarter.

Kiln Drying, Lamination and Sawmill

For the quarter under review, the segment recorded revenue of RM47 million and profit before taxation of RM4.6 million as compared to prior year corresponding quarter ended 30 September 2018 which recorded revenue of RM34 million and profit before taxation of RM1.2 million. The increase of profit before taxation was mainly due to increase in demand for tropical wood and improved in production efficiency.

Processing and Trading of Wood

The segment's revenue for the quarter has increased by RM1 million from RM6.6 million to RM7.6 million as compared to prior year corresponding quarter ended 30 September 2018. Profit before taxation has also increased from RM860,000 in prior year corresponding quarter to RM1.5 million for the quarter under review. The operating result was mainly due to the wood extraction activities for the current quarter.

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

	Current Quarter	Immediate Preceding Quarter	Change (Amount/%)
	30.9.2019 RM'000	30.6.2019 RM'000	RM'000/%
Revenue	78,904	72,541	6,363 9%
Operating profit	10,671	9,453	1,218 13%
Profit before interest and taxation	8,006	6,623	1,383 21%
Profit before taxation	6,919	5,589	1,330 24%
Profit after taxation	6,160	2,303	3,857 167%
Profit attributable to Ordinary Equity Holders of the Company	6,154	2,181	3,973 182%

	Individual Quarter	
	30.9.2019 RM'000	30.6.2019 RM'000
Revenue		
Manufacturing	23,973	18,838
Kiln Drying, Lamination and Sawmill	47,368	49,422
Processing and Trading of Wood	7,563	4,281
Group	78,904	72,541
Profit/(Loss) before taxation		
Manufacturing	816	(1,078)
Kiln Drying, Lamination and Sawmill	4,577	5,787
Processing and Trading of Wood	1,452	867
Others	74	13
Group	6,919	5,589

The Group recorded revenue and profit before taxation of RM79 million and RM6.9 million for the financial quarter ended 30 September 2019, compared to revenue of RM72 million and profit before taxation of RM5.6 million recorded in the immediate preceding quarter ended 30 June 2019. The operating results was mainly attributable to the manufacturing segment where the segment has recorded profit before taxation of RM816,000 as compared to loss before taxation of RM1 million in the immediate preceding quarter. The turnaround for this segment is due to higher revenue and improved in production efficiency

B3. Prospects

The Group's operating environment for the financial year ending 2020 remains challenging and competitive. The Management will continue to focus on the Group's core business, i.e. manufacturing segment and to further strengthen our market position by expanding of customer base and market shares. The Board believes that the manufacturing segment's performance will continue to improve in the remaining quarters. The Group expects to achieve satisfactory performance and remain profitable for the financial year ending 30 June 2020.

B4. Profit Forecast

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

B5. Taxation

The tax charges comprise:-

	Current Quarter RM'000	Current Year to Date RM'000
Income Tax	759	759

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 2019 are as follows:

As at 30.9.2019 RM'000	Long term RM denomination	Short term RM denomination	Total borrowing RM denomination
Secured			
Banker Acceptances	-	32,222	32,222
Bank Overdrafts	-	5,302	5,302
Hire Purchases	1,402	2,205	3,607
Term Loans	16,034	14,736	30,770
Total	17,436	54,465	71,901

As at 30.9.2018 RM'000	Long term RM denomination	Short term RM denomination	Total borrowing 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

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.

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B10. Earnings per Share

The earnings per share for the current quarter and financial period ended 30 September 2019 are as follows:-

	Current Quarter	Current Year To Date
(a) Basic		
Profit attributable to owners of the Company (RM'000)	6,154	6,154
Weighted average number of ordinary shares in issue ('000)	240,000	240,000
Basic Earnings per ordinary share (Sen)	2.56	2.56
(b) Diluted		
Profit attributable to owners of the Company (RM'000)	6,154	6,154
Weighted average number of ordinary shares in issue ('000)	240,000	240,000
Effect of conversion of warrants ('000)	45,000	45,000
Adjusted weighted average number of ordinary shares in issue ('000)	285,000	285,000
Diluted Earnings per ordinary share (Sen)	2.16	2.16

B11. Notes to the Comprehensive Income Statement

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

	Individual Quarter Ended 30.9.2019 RM'000	Year to date Ended 30.9.2019 RM'000
After Charging:-		
Interest expenses	1,087	1,087
Depreciation and amortisation	1,029	1,029
Realised loss on foreign exchange	119	119
After Crediting:-		
Interest income	2	2
Rental income	459	459
Gain on disposal of property, plant and equipment	70	70
Realised gain on foreign exchange	13	13

B12. Significant Related Party Transactions

There were no significant related party transactions during the financial quarter under review.