

**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:

	<b>Group 1.7.2019 RM’000</b>
<b>Consolidated statement of financial position</b>	
Right of use assets	717
Lease liabilities	735
<b>Adjustments to retained profits</b>	<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.

**SERN KOU RESOURCES BERHAD**

Company No. 200001016496 (519103-X)

SECOND QUARTER ENDED 31 DECEMBER 2019

**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 Cyclicity 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.

<b>Business Segment</b>	<b>Others</b> RM'000	<b>Manufacturing</b> RM'000	<b>Kiln Drying, Lamination and Sawmill</b> RM'000	<b>Processing and Trading of Wood</b> RM'000	<b>Inter- Company Elimination</b> RM'000	<b>Total</b> RM'000
<u>31.12.2019</u>						
<b>Revenue</b>						
External sales	-	52,711	87,718	14,771	-	155,200
Inter-segment sales	636	-	781	1,862	(3,279)	-
	636	52,711	88,499	16,633	(3,279)	155,200
<b>Results</b>						
Profit before taxation	50	1,539	9,037	3,170	-	13,796
Taxation	(31)	94	(1,051)	(374)	-	(1,362)
Profit after taxation	19	1,633	7,986	2,796	-	12,434

**SERN KOU RESOURCES BERHAD**

Company No. 200001016496 (519103-X)

SECOND QUARTER ENDED 31 DECEMBER 2019

**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:

	<b>Company</b>	
	As at 31.12.2019	As at 31.12.2018
<u>Contingent Liabilities</u>	RM'000	RM'000
Corporate guarantees given to licensed banks for banking facilities granted to subsidiaries	<u>67,675</u>	<u>58,438</u>

	<b>Group</b>	
	As at 31.12.2019	As at 31.12.2018
	RM'000	RM'000
<u>Capital Commitment</u>		
The Group has entered into sales and purchase agreement for land and building, plant and machinery resulting in future commitments	=	=

**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 quarter		
	Current Year Quarter	Preceding Year Quarter	Changes (Amount/%)	Current Year To-date	Preceding Year To-date	Changes (Amount/%)
	31.12.2019 RM'000	31.12.2018 RM'000	RM'000/%	31.12.2019 RM'000	31.12.2018 RM'000	RM'000/%
Revenue	76,296	49,955	26,341 53%	155,200	107,764	47,436 44%
Operating Profit	11,199	8,348	2,851 34%	21,870	13,818	8,052 58%
Profit Before Interest and Taxation	8,006	5,236	2,770 53%	16,012	8,231	7,781 95%
Profit Before Taxation	6,877	4,417	2,460 56%	13,796	6,401	7,395 116%
Profit After Taxation	6,274	4,311	1,963 46%	12,434	6,098	6,336 104%
Profit attributable to Ordinary Equity Holders of the Company	6,173	4,197	1,976 47%	12,327	5,981	6,346 106%

In the second quarter ended 31 December 2019, the Group recorded revenue of RM76 million compared to revenue of RM50 million recorded in the prior year corresponding quarter ended 31 December 2018. The revenue increased by 53% as the result of increased in demand for both the furniture in the manufacturing segment and tropical wood in the kiln drying, lamination and sawmill segment.

The profit before taxation rose by RM3 million from RM4 million recorded in 31 December 2018 to RM7 million for financial quarter ended 31 December 2019. The operating result was mainly attributable to higher revenue recorded in both the manufacturing and kiln drying, lamination and sawmill segments.

**SERN KOU RESOURCES BERHAD**

Company No. 200001016496 (519103-X)

SECOND QUARTER ENDED 31 DECEMBER 2019

**B1. Financial review for current quarter and financial year to date (Continued)**Segmental Breakdown of Revenue and Profit or Loss

	<b>Year to Date</b>		<b>Individual Quarter</b>	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>				
Manufacturing	52,711	33,459	28,738	16,186
Kiln Drying, Lamination and Sawmill	87,718	63,398	40,350	29,462
Processing and Trading of Wood	14,771	10,907	7,208	4,307
<b>Group</b>	<b>155,200</b>	<b>107,764</b>	<b>76,296</b>	<b>49,955</b>
<b>Profit/(Loss) before taxation</b>				
Manufacturing	1,539	244	723	386
Kiln Drying, Lamination and Sawmill	9,037	4,526	4,460	3,309
Processing and Trading of Wood	3,170	1,591	1,718	734
Others	50	40	(24)	(12)
<b>Group</b>	<b>13,796</b>	<b>6,401</b>	<b>6,877</b>	<b>4,417</b>

In the second quarter ended 31 December 2019, the Group recorded revenue and profit before taxation of RM76 million and RM7 million respectively compared to RM50 million and RM4 million recorded in the prior year corresponding quarter.

The increase in profit before taxation of RM3 million from the prior year corresponding period of RM4 million to RM7 million was in line with the increase in revenue for the entire Group.

Manufacturing

Manufacturing segment, which consists of manufacturing of wooden furniture and plywood recorded revenue of RM29 million for the quarter under review compared to RM16 million recorded in prior year corresponding quarter. The segment recorded profit before taxation of RM723,000 as the result from higher revenue and improved in production efficiency in current quarter.

Kiln Drying, Lamination and Sawmill

For the quarter under review, the segment recorded revenue of RM40 million and profit before taxation of RM4.5 million as compared to prior year corresponding quarter ended 31 December 2018 which recorded revenue of RM29 million and profit before taxation of RM3.3 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 RM3 million from RM4 million to RM7 million as compared to prior year corresponding quarter ended 31 December 2018. Profit before taxation has also increased from RM734,000 in prior year corresponding quarter to RM1.7 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**

	<b>Current Quarter</b>	<b>Immediate Preceding Quarter</b>	<b>Change (Amount/%)</b>
	31.12.2019 RM'000	30.9.2019 RM'000	RM'000/%
Revenue	76,296	78,904	(2,608) -3%
Operating profit	11,199	10,671	528 5%
Profit before interest and taxation	8,006	8,006	- 0%
Profit before taxation	6,877	6,919	(42) -1%
Profit after taxation	6,274	6,160	114 2%
Profit attributable to Ordinary Equity Holders of the Company	6,173	6,154	19 0%

	<b>Individual Quarter</b>	
	31.12.2019 RM'000	30.9.2019 RM'000
<b>Revenue</b>		
Manufacturing	28,738	23,973
Kiln Drying, Lamination and Sawmill	40,350	47,368
Processing and Trading of Wood	7,208	7,563
<b>Group</b>	<b>76,296</b>	<b>78,904</b>
<b>Profit /(loss) before taxation</b>		
Manufacturing	723	816
Kiln Drying, Lamination and Sawmill	4,460	4,577
Processing and Trading of Wood	1,718	1,452
Others	(24)	74
<b>Group</b>	<b>6,877</b>	<b>6,919</b>

The Group recorded revenue of RM76 million for the financial quarter ended 31 December 2019, compared to revenue of RM79 million recorded in the immediate preceding quarter ended 30 September 2019. Lower revenue in the current quarter under review is mainly due to the raining season which affected the revenue of the kiln drying, lamination and sawmill segment. The revenue for this segment is RM40 million for the current quarter as compared to revenue of RM47 million recorded in the quarter ended 30 September 2019. The profit before taxation for the current quarter remains the same as compared to the immediate preceding quarter ended 30 September 2019 at RM7 million.

**B3. Prospects**

The Group will continue with concerted efforts to develop new design, derive better cost efficiencies and effective cost management across all segments. The Board believes that the Group's prospects for the financial year ending 30 June 2020 would be challenging but profitable.

**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	603	1,362

**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 31 December 2019 are as follows:

As at 31.12.2019	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
<b>Secured</b>			
Banker Acceptances	-	30,623	30,623
Bank Overdrafts	-	8,773	8,773
Hire Purchases	1,560	1,790	3,350
Term Loans	15,519	12,760	28,279
<b>Total</b>	<b>17,079</b>	<b>53,946</b>	<b>71,025</b>

As at 31.12.2018	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
<b>Secured</b>			
Banker Acceptances	-	24,338	24,338
Bank Overdrafts	-	6,194	6,194
Hire Purchases	2,134	2,636	4,770
Term Loans	18,390	9,516	27,906
<b>Total</b>	<b>20,524</b>	<b>42,684</b>	<b>63,208</b>

**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.

**B10. Earnings per Share**

The earnings per share for the current quarter and financial period ended 31 December 2019 are as follows:-

	<b>Current Quarter</b>	<b>Current Year To Date</b>
<b>(a) Basic</b>		
Profit attributable to owners of the Company (RM'000)	6,173	12,327
Weighted average number of ordinary shares in issue ('000)	248,228	244,092
Basic Earnings per ordinary share (Sen)	2.49	5.05
<b>(b) Diluted</b>		
Profit attributable to owners of the Company (RM'000)	6,173	12,327
Weighted average number of ordinary shares in issue ('000)	248,228	244,092
Effect of conversion of warrants ('000)	60,676	54,662
Adjusted weighted average number of ordinary shares in issue ('000)	308,904	298,754
Diluted Earnings per ordinary share (Sen)	2.00	4.13

**B11. Notes to the Comprehensive Income Statement**

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

	<b>Individual Quarter Ended 31.12.2019 RM'000</b>	<b>Year to date Ended 31.12.2019 RM'000</b>
<b>After Charging:-</b>		
Interest expenses	1,129	2,216
Depreciation and amortisation	1,060	2,089
Realised loss on foreign exchange	209	328
<b>After Crediting:-</b>		
Interest income	6	8
Rental income	459	918
Gain on disposal of property, plant and equipment	162	232
Realised gain on foreign exchange	-	13

**B12. Significant Related Party Transactions**

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