

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 2020. 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 2020.

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 financial year ended 30 June 2020 except for the adoption of the following standards effective for the financial periods beginning on or after 1 January 2020:

<u>Title</u>	<u>Effective Date</u>
Amendments to <i>References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
Amendments to MFRS 3 <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 and MFRS 108 <i>Definition of Material</i>	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7 <i>Interest Rate Benchmark Reform</i>	1 January 2020
Amendments to MFRS 16 <i>COVID-19 Related Rent Concessions</i>	1 June 2020

The adoption of the above standards does not have any material impact on the financial statements of the Group.

Changes in 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 financial year ended 30 June 2020 except as follows:

The Group re-assessed its accounting policy for property, plant and equipment (“PPE”), right-of-use asset (“ROU asset”) and investment property (“IP”) with respect to measurement of certain classes of PPE, ROU asset and IP after initial recognition. The Group has previously measured all the PPE, ROU asset and IP using the cost model whereby, after the initial recognition of the PPE, ROU asset and IP were carried at cost less accumulated depreciation and accumulated impairment losses.

During the financial period ended 30 September 2020, the Group elected to change the method of accounting for land and building classified under the PPE, ROU asset and IP, as the Group believes that the fair value model more effectively demonstrates the carrying value of the land and building. Therefore, the Group has appointed an independent professional valuer to value the land and building and arrive the fair valuation of the said land and buildings.

(a) Revaluation of land and building classified under PPE and ROU asset

The Group adopts the policy to revalue the land and building at least once in every 5 years or at such shorter period as may be considered to be appropriate based on the advice of external professional valuers and appraisers’ valuation.

A revaluation surplus is recognised in other comprehensive income and accumulated in equity under revaluation surplus, except to the extent it reverses a valuation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in statement of profit or loss.

A2. Accounting Policies (Continued)

A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the revaluation surplus. In which case the decrease is recognised in other comprehensive income and it reduces the amount accumulated in equity under revaluation surplus. On disposal of revalued asset, amount in revaluation surplus relating to that asset is transferred to retained profits.

The impacts due to recognition of land and building classified under PPE and ROU asset at fair value model is as detailed below:

Group of assets	Net book value as at 30.9.2020 (RM'000)	Open market value as at 30.9.2020 (RM'000)	Revaluation surplus as at 30.9.2020 (RM'000)
PPE	40,149	90,010	49,861
ROU asset	8,200	21,740	13,540
Total	48,349	111,750	63,401
Deferred Taxation			(13,700)
Revaluation surplus, net of deferred taxation			49,701

(b) Revaluation of land and building classified under investment property (“IP”)

IP is initially measured at cost, including related transaction costs. Subsequent to initial recognition, IP is stated at fair value, which reflect market conditions at the reporting date. Gain or losses arising from changes in fair values of IP are included in profit or loss in the period in which they arise, including corresponding tax effect. Fair values are determined based on an annual valuation performed by an external professional valuer.

The impacts due to recognition of land and building classified under IP at fair value model is as detailed below:

Group of assets	Net book value as at 30.9.2020 (RM'000)	Open market value as at 30.9.2020 (RM'000)	Revaluation surplus as at 30.9.2020 (RM'000)
IP	3,373	7,400	4,027
Deferred Taxation			(967)
Fair value gain on IP, net of deferred taxation			3,060

The Group has applied the valuation model retrospectively and the financial impact of change in accounting policy in Condensed Consolidated Statement of Financial Position as at 1 July 2020 are as below:

Opening Balance as at 1.7.2020	As previously reported (RM'000)	MFRS 140 adjustment (RM'000)	Restated (RM'000)
IP	2,269	1,121	3,390
Deferred tax liabilities	1,120	269	1,389
Retained profits	44,114	852	44,966

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.

Business Segment	Manufacturing and Trading of Furniture	Processing and Trading of Wood	Others	Inter-Company Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31.3.2021</u>					
Revenue					
External sales	65,319	167,159	-	-	232,478
Inter-segment sales	434	6,047	1,350	(7,831)	-
	65,753	173,206	1,350	(7,831)	232,478
Results					
Profit before taxation	1,530	21,185	273	-	22,988
Taxation	(54)	(3,350)	(102)	-	(3,506)
Profit after taxation	1,476	17,835	171	-	19,482

A10. Valuation of Property, Plant and Equipment, Right-of use Assets and Investment Property

The Group has carried out a valuation exercise on its land and building classified under Property, Plant and Equipment ("PPE"), Right-of-use ("ROU") Assets and Investment Property ("IP") respectively during the financial quarter ended 30 September 2020. The revaluation is performed by an independent professional valuer, Messrs HASB Consultants Sdn. Bhd., using the market value as the basis of valuation. In arriving at the market value, the main approach is Comparison Method (for land valuation) in addition with Cost Method (for building valuation). The revaluation was carried out to ascertain the current market value of the land and building classified under PPE, ROU assets and IP for accounting purposes.

The impact of the revaluation is disclosed in Note A2 of this financial statements.

A11. Material Subsequent Events

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

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 2020, 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:

<u>Contingent Liabilities</u>	Company	
	As at 31.3.2021 RM'000	As at 31.3.2020 RM'000
Corporate guarantees given to licensed banks for banking facilities granted to subsidiaries	<u>63,459</u>	<u>72,649</u>

There is no capital commitment for the financial period under review.

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/%)
	31.3.2021 RM'000	31.3.2020 RM'000	RM'000/%	31.3.2021 RM'000	31.3.2020 RM'000	RM'000/%
Revenue	66,934	67,067	(133) 0%	232,478	222,267	10,211 5%
Operating Profit	10,821	8,156	2,665 33%	31,280	30,026	1,254 4%
Profit Before Interest and Taxation	8,344	5,290	3,054 58%	25,507	21,302	4,205 20%
Profit Before Taxation	7,600	4,278	3,322 78%	22,988	18,074	4,914 27%
Profit After Taxation	6,178	3,040	3,138 103%	19,482	15,474	4,008 26%
Profit attributable to Owners of the Company	5,986	3,035	2,951 97%	19,109	15,362	3,747 24%

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

Current quarter

In the third quarter ended 31 March 2021, the revenue was recorded the same at RM67 million as compared to revenue recorded in prior year corresponding quarter ended 31 March 2020.

Profit before taxation increased by 78% to RM8 million in the current quarter under review as compared to profit before taxation recorded in prior year corresponding quarter ended 31 March 2020 as the result of improvement in production efficiency.

Financial year-to-date

The Group recorded revenue of RM232 million for the current financial period ended 31 March 2021 compared to the revenue of RM222 million recorded in the prior year corresponding financial period. The revenue increased by 5% as the result of increased in demand for tropical wood in the processing and trading of wood segment.

The Group registered a profit before taxation of RM23 million as compared to profit before taxation of RM18 million recorded in the prior year corresponding financial period. The operating result for current financial period was mainly due to improved production efficiency across all segments.

Segmental Breakdown of Revenue and Profit or Loss

	Year-to-Date		Individual Quarter	
	31.3.2021	31.3.2020	31.3.2021	31.3.2020
	RM'000	RM'000	RM'000	RM'000
Revenue				
Manufacturing and Trading of Furniture	65,319	76,576	19,614	23,867
Processing and Trading of Wood	167,159	145,691	47,320	43,200
Group	232,478	222,267	66,934	67,067
Profit/(Loss) before taxation				
Manufacturing and Trading of Furniture	1,530	1,130	226	(410)
Processing and Trading of Wood	21,185	16,855	7,249	4,649
Others	273	89	125	39
Group	22,988	18,074	7,600	4,278

Manufacturing and Trading of Furniture

The segment recorded revenue of RM20 million for the quarter under review compared to revenue of RM24 million recorded in prior year corresponding quarter ended 31 March 2020. Lower revenue recorded in the current quarter was mainly due to the critical shortage of containers for shipment of goods to customers. Lower container availability has resulted in delay on shipment of orders and lower revenue. The profit before taxation for the current quarter has turnaround from loss before taxation of RM410,000 recorded in prior year corresponding quarter ended 31 March 2020 to profit before taxation of RM226,000. The turnaround was mainly due to improvement in production efficiency.

Processing and Trading of Wood

For the quarter under review, the revenue for the segment is recorded at RM47 million as compared to revenue of RM43 million recorded in the prior year corresponding quarter. Higher revenue recorded in the current quarter was mainly due to higher demand for tropical wood. The segment registered profit before taxation of RM7 million for the current quarter under review as compared to profit before taxation of RM5 million in the prior year corresponding quarter ended 31 March 2020. The increase in profit before taxation was mainly due to increase in sales demand and improvement in production efficiency.

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

	Current Quarter	Immediate Preceding Quarter	Change (Amount/%)
	31.3.2021	31.12.2020	
	RM'000	RM'000	RM'000/%
Revenue	66,934	84,877	(17,943) -21%
Operating profit	10,821	10,597	224 2%
Profit before interest and taxation	8,344	7,975	369 5%
Profit before taxation	7,600	7,124	476 7%
Profit after taxation	6,178	6,085	93 2%
Profit attributable to owners of the Company	5,986	5,974	12 0%

	Individual Quarter	
	31.3.2021	31.12.2020
	RM'000	RM'000
Revenue		
Manufacturing and Trading of Furniture	19,614	20,337
Processing and Trading of Wood	47,320	64,540
Group	66,934	84,877
Profit before taxation		
Manufacturing and Trading of Furniture	226	644
Processing and Trading of Wood	7,249	6,384
Others	125	96
Group	7,600	7,124

The revenue for the Group was recorded lower at RM67 million as compared to revenue of RM85 million recorded in the immediate preceding quarter ended 31 December 2020. The result was due to lower revenue registered in the processing and trading of wood segment as the demand for tropical wood was lower during the quarter under review. Despite lower revenue recorded in the current quarter as compared to immediate preceding quarter ended 31 December 2020, the revenue for the financial period ended 31 March 2021 was higher than revenue recorded for the financial period ended 31 March 2020.

The profit before taxation of RM8 million recorded the current quarter under review was 14% higher than the profit before taxation of RM7 million recorded in the immediate preceding quarter ended 31 December 2020. Higher profit before taxation recorded in the current quarter was mainly due to improvement in production efficiency.

B3. Prospects

The COVID-19 pandemic has resulted in significant levels of uncertainty and challenges across Malaysia as well as the global economy.

Nonetheless, the Group will continue to maintain its prudent management strategy coupled with various cost efficiency measures in the coming quarters.

The Group expects to achieve positive results and remain profitable for the financial year ending 30 June 2021.

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	1,422	3,506

B6. Status of Corporate Proposals

On 12 April 2021, the Company announced a Proposed Bonus Issue of up to 720,000,000 new ordinary shares in Sern Kou Resources Berhad ("SKRB") on the basis of 2 Bonus Shares for every 1 existing SKRB share held by the shareholders of SKRB whose name appear in the record of Depositors of the Company at the close of business on an entitlement date to be determined and announced later by the Board ("Proposed Bonus Issue").

On 19 April 2021, the Company announced that Bursa Securities has, vide its letter dated on 19 April 2021, resolved to approve the listing of and quotation for 720,000,000 new SKRB shares to be issued pursuant to the Proposed Bonus Issue.

The Proposed Bonus Issue was approved by the shareholders of the Company at the virtual Extraordinary General Meeting held on 20 May 2021.

B7. Group Borrowings and Debt Securities

The Group's borrowings as at 31 March 2021 are as follows:

As at 31.3.2021	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	33,596	33,596
Bank Overdrafts	-	14,293	14,293
Term Loans	13,715	1,855	15,570
Total	13,715	49,744	63,459
As at 31.3.2020			
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	35,142	35,142
Bank Overdrafts	-	13,970	13,970
Term Loans	14,932	8,605	23,537
Total	14,932	57,717	72,649

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 March 2021 are as follows:-

	Individual quarter		Cumulative quarter	
	Current Year Quarter	Preceding Year Quarter	Current Year-To-Date	Preceding Year-To-Date
	31.3.2021	31.3.2020	31.3.2021	31.3.2020
Profit attributable to owners of the Company (RM'000)	5,986	3,035	19,109	15,362
Weighted average number of ordinary shares in issue ('000)	261,642	240,136	259,568	247,604
Effect of conversion of warrants ('000)	79,321	48,548	79,557	52,620
Adjusted weighted average number of ordinary share in issue ('000)	340,963	288,684	339,125	300,224
Basic earnings per ordinary share (Sen)	2.29	1.26	7.36	6.20
Diluted earnings per ordinary share (Sen)	1.76	1.05	5.63	5.12

B11. Notes to the Statement of Profit or Loss

The following items have been included in the Statement of Profit or Loss:-

	Individual Quarter Ended	Year to date Ended
	31.3.2021	31.3.2021
	RM'000	RM'000
After Charging:-		
Interest expenses	744	2,519
Depreciation	1,214	3,482
Realised loss on foreign exchange	30	736
Property, plant and equipment written off	2	268
After Crediting:-		
Interest income	1	2
Rental income	382	1,213
Realised gain on foreign exchange	66	66
Gain on disposal of property, plant and equipment	5	52
Net fair value gain on investment property	-	3,060

B12. Significant Related Party Transactions

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

B13. Authorised for Issue

The interim financial statements were authorised for issue on 20 May 2021 by the Board of Directors.

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