SERN KOU RESOURCES BERHAD

[Registration No. 200001016496 (519103-X)]

ANNUAL REPORT 2019

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Management Discussion & Analysis

Dear Valued Shareholders,

On behalf of the Board of Directors of Sern Kou Resources Berhad, I am delighted to present to you the Annual Report of Sern Kou Resources Berhad ("Sern Kou" or the "Group") for the financial year ended 30 June 2019 ("FY2019").

BUSINESS OVERVIEW

The Group reached a new and significant milestone in FY2019 as we delivered another strong financial performance for the year under review. We registered a revenue of RM237.1 million with a profit after tax and non-controlling interest ("PATNCI" or "net profit") of RM11.6 million. This is the first time in our history that our top and bottom-line surpassed the RM200.0 million and RM10.0 million mark respectively.

We were listed on the Second Board of Malaysia Securities Exchange Berhad in 2004 (now renamed Bursa Malaysia Securities Berhad). In the subsequent year, the listing was transferred to the Main Board (now known as Main Market) of Bursa Securities.

Management Discussion & Analysis

KEY BUSINESS SEGMENTS

Furniture & Plywood Manufacturing (Downstream Operations)

Furniture Manufacturing

Our furniture manufacturing plant sits in Muar, Johor. We specialise in rubberwood furniture, mainly producing rubberwood dining furniture. The Group also manufactures living room furniture as well as bedroom and occasional sets. Sern Kou serves as an Original Design Manufacturer ("ODM") and Original Equipment Manufacturer ("OEM"). We are proud that we have a capable design team that churns out in excess of 50 new designs every year. The Group exports to more than 50 countries worldwide.

Plywood Manufacturing

Our plywood manufacturing operations are located in Gua Musang, Kelantan, alongside our sawmill. Sern Kou manufactures waterproof tropical hardwood and rubberwood plywood. The Group uses recycled wood materials to manufacture plywood, which reduces wastage. We mainly supply to customers from the local construction industry.

Kiln-Drying, Lamination & Sawmill (Midstream Operations)

Sern Kou's kiln-drying rooms are in Muar, Johor, together with furniture manufacturing operations. Kiln-drying is the process of using circulated heated air to remove excess moisture from the wood. Wood with high moisture content levels can affect its strength and integrity.


DINING FURNITURE


LIVING ROOM FURNITURE


BEDROOM FURNITURE


OCCASIONAL FURNITURE

Management Discussion & Analysis

The kiln-drying, lamination and sawmill business contributed to the record-breaking financial performance. Sern Kou has two sawmills in Kelantan – Kuala Krai and Gua Musang. At our sawmills, we sort logs according to sizes and species before cutting them into wood in predefined sizes, which are then sold to our customers.

We acquired the Kuala Krai sawmill in 2016. The land in Kuala Krai spans across 28.5 acres. Currently, partially are utilised under operations. The remainder of the land will be utilised for our future capacity expansion. As for our Gua Musang sawmill, it was acquired back in 2017. The 16.8-acre land is presently fully utilised for our sawmill and plywood manufacturing operations.

Processing & Trading of Wood (Upstream Operations)

Sern Kou processes rubberwood and timber logs, which are then supplied to our trading arm. Aside from processed logs, we also trade raw logs that are unprocessed.

FINANCIAL PERFORMANCE REVIEW

Five-Year Group Financial Summary

Revenue

We posted our best-ever revenue of RM237.1 million in FY2019, an increase of RM64.1 million or 37.1% year-on-year ("YoY") from RM173.0 million in FY2018. The double-digit improvement was mainly attributed to strong growth from our midstream activities especially our kiln-drying, lamination and sawmill operations as well as commendable growth from our manufacturing and processing and trading business.

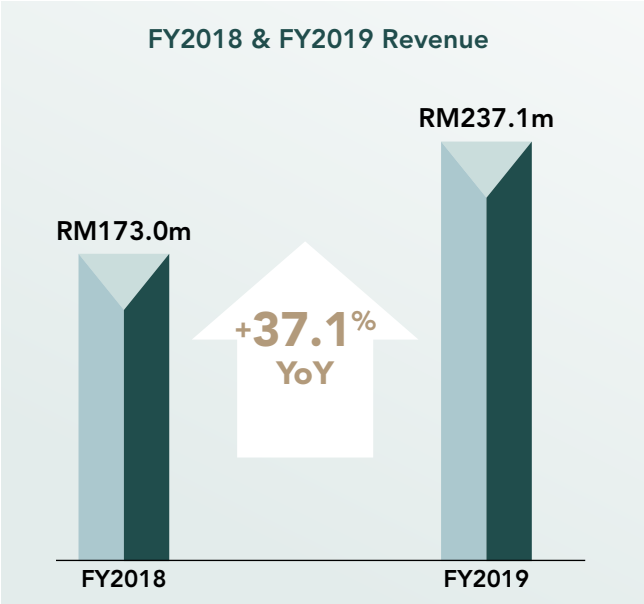
Operating Expenses and Finance Costs

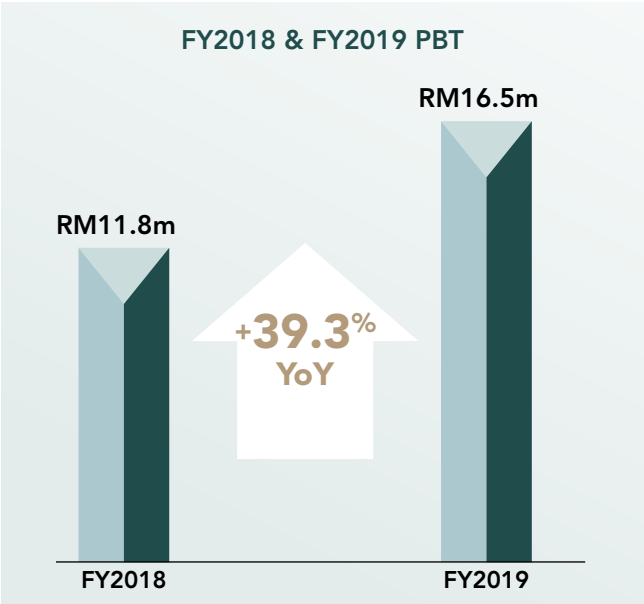
In FY2019, Sern Kou's operating expenses increased by RM0.9 million or 7.8% YoY to RM13.1 million compared to RM12.1 million in the previous year. In comparison with our top-line growth, our operating expenses grew at a much slower pace. This is credited to our effective cost monitoring measures, which allowed us to keep our cost under control while growing our turnover at the same time.

The Group incurred a higher finance costs of RM4.2 million in FY2019 as compared to RM3.0 million in FY2018. The increase was mainly attributable to the increase in short term borrowings for operation needs.

	FY2015 RM'000	FY2016 RM'000	FY2017 RM'000	FY2018 RM'000	FY2019 RM'000
Financial Results					
Revenue	109,473	105,165	130,343	172,996	**237,137**
Profit before taxation	2,672	2,268	1,784	11,824	**16,466**
Profit after taxation	2,153	1,335	981	9,119	**11,881**
Profit attributable to owners	2,153	1,337	1,464	9,084	**11,562**
Financed by					
Shareholder's fund	63,752	65,088	66,553	75,636	**87,199**
Net assets	63,752	65,087	67,293	76,413	**88,296**
Statistics					
Earnings per Share (sen)	1.79	1.11	0.61	3.78	**4.82**
Gross Dividend per Share (sen)	-	-	-	-	**-**
Net Assets per Share (RM)	0.53	0.54	0.56	0.32	**0.37**

Management Discussion & Analysis





Profit Before Taxation ("PBT")

In tandem with our turnover growth, the Group's PBT also expanded at similar pace of 39.3% YoY to RM16.5 million in FY2019 from RM11.8 million in FY2018. The strong growth was anchored by our midstream operations, where PBT contribution from the segment increase significantly from the prior year.

PATNCI or Net Profit and Earnings Per Share ("EPS")

Sern Kou achieved a net profit of RM11.6 million in FY2019, breaking the RM10-million mark for the first time in our history. Our net profit increased 27.3% YoY from RM9.1 million the year before. FY2019 net profit expanded at a slower pace by comparison to PBT owing to the higher tax expense incurred in FY2019.

Our record net profit translated to a basic EPS of 4.82 sen per share in FY2019. This represented a jump of 27.5% YoY versus 3.78 sen per share in FY2018.

Trade and Other Receivables

In the financial year under review, the Group's trade and other receivables increased RM33.1 million or 59.2% YoY to RM88.9 million. Our trade receivables grew in line with our top-line.

Inventories

Inventories rose RM6.6 million or 38.3% YoY to RM23.7 million in FY2019. The increase was chiefly driven by the rise in raw materials to RM10.1 million during the financial year from RM4.3 million in FY2018.

Trade and Other Payables

Sern Kou's trade and other payables jumped to RM25.2 million in FY2019 from RM13.5 million in FY2018. The surge was in tandem with the increase in our turnover.

Capital Structure and Capital Resources

The Group's total borrowings was RM13.7 million or 23.1% higher YoY at RM72.9 million in the financial year under review. The rise was mainly due to higher bankers' acceptances and term loans.

Sern Kou remains prudent in maintaining a healthy financial position that enables us to execute our strategic plans and maximizing shareholders value.

Segmental Performance

Kiln-drying, lamination and sawmill operations remain Sern Kou's primary revenue driver, accounting for 61.8% of total revenue in FY2019. The balance was contributed by manufacturing (28.4%) as well as processing and trading (9.8%) activities respectively.

Manufacturing

In FY2019, our manufacturing segment posted a revenue of RM67.2 million. This was an increase of 16.3% YoY from RM57.8 million a year ago. The turnover growth was boosted by stronger demand for both our rubberwood furniture and plywood products.

We incurred a smaller loss before tax ("LBT") of RM1.5 million in FY2019 as compared to an LBT of RM1.7 million in FY2018. Our manufacturing division was loss-making as a result of higher raw material and labour costs. The management team continues to streamline operations as part of our turnaround plan.

Kiln-Drying, Lamination and Sawmill

Revenue from our midstream operations soared 56.7% YoY to RM146.6 million in FY2019 (FY2018: RM93.5 million). The double-digit increase was largely attributed to higher production output from our Kuala Krai and Gua Musang sawmills, which allowed us to capture the growing demand for tropical wood. The utilisation rate for both sawmills has been ramping up since it commenced operations in mid-2018.

The strong top-line growth was amplified at the PBT level as a result of higher economies of scale attained from greater utilisation rate of our sawmills. Kiln-drying, lamination and sawmill segment posted a PBT of RM13.4 million in FY2019 versus RM5.6 million in FY2018, constituting a jump of 139.8% YoY.

Processing and Trading

Our processing and trading division registered a commendable growth of 7.7% YoY to RM23.3 million in FY2019 from RM21.7 million in the previous year. The growth was achieved on the back of higher trading volume achieved during the financial year under review. Our upstream segment contributed 9.8% to total turnover in FY2019, which was a drop from the year before (FY2018: 12.5%) due to stronger contribution from our midstream operations.

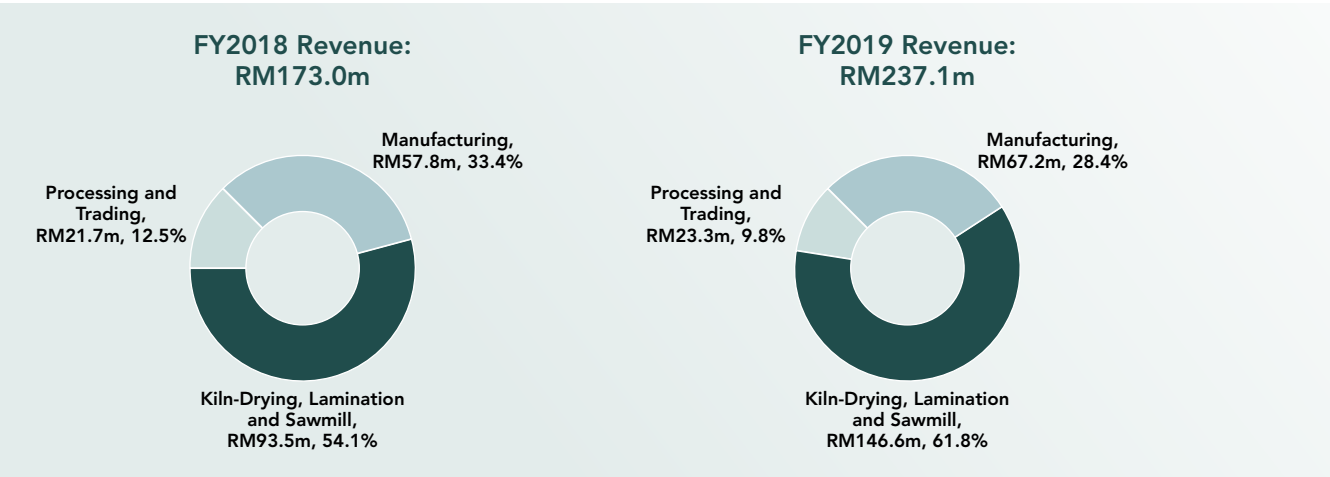
Meanwhile, this division delivered a PBT of RM4.4 million in FY2019, a decline of 42.1% YoY from FY2018.

RISKS OVERVIEW

Labour Shortage

The shortage of worker and the ability to recruit and retain labour is an issue faced by all players in the industry. A shortage of labour would disrupt the Group's production and workflows, leading to adverse impact on our financial performance.

As part of our risk mitigation plan, we are investing into more automated machine in the near future to reduce reliance on labour.



Availability of Raw Materials

The main raw materials Sern Kou uses are logs and wood for our midstream and downstream businesses. The Group sources the materials from various vendors as well as our own upstream operations. Any disruption in the supply would affect our operations and negatively impact Sern Kou's financial performance. In the event of a supply disruption of wood, our upstream operations could serve as a support for raw materials and minimise the impact.

Foreign Currency Exchange Rates

Sern Kou is exposed to foreign currency risk on sales that are denominated in foreign currencies. The majority of our revenue is denominated in RM, followed by United States Dollar ("USD") and Chinese Yuan ("CNY"). We manage our transactional currency exposure by matching our receipts and payments in each individual currency as far as possible. Besides, the Group closely monitors the volatility of foreign exchange rates and shall enter into non-speculative foreign currency hedge arrangement when necessary.

Environment

Like all players in the furniture and wood-related industry, we are subject to strict environmental regulations by the authorities. Any non-compliance may result in directive by the authorities to halt business activities, causing disruptions to operations. As a responsible corporate citizen, the Group has incurred, and will continue to incur costs to comply with the environmental laws and regulations. We have also undertaken numerous initiatives at our plants to minimise environmental impact.

PROSPECTS

FY2019 was a certainly good year for Sern Kou. We delivered a solid financial performance and achieved major milestones. As we move into FY2020, we remain steadfastly focused on the execution of the plans we have in place to maintain the growth momentum and continue to create value for our shareholders. Looking ahead, we will carry on with the expansion of our kiln-drying, lamination and sawmill operations as well as our furniture manufacturing business. For our upstream activities, we shall continue to grow the business organically, which would also serve as a support for our midstream and downstream operations as and when required.

APPRECIATION

On behalf of the Board, we would like to express our sincere gratitude to our management and staff at Sern Kou for their continuous commitment, hard work, and contribution to the Group.

We would also like to thank all our other stakeholders, including our valued shareholders, customers, business partners, bankers, and suppliers for their unwavering support to Sern Kou.

Additionally, we are pleased to welcome Mr. Lee Shen Wang to the Board as our Executive Director. We are confident that he will contribute positively to the Group as a member of the Board.

Finally, the Group would like to extend our heartfelt appreciation to the Board of Sern Kou for your dedication, valuable advice, and service to the Board. We trust that the stewardship of our Board will take Sern Kou to greater heights.

Sustainability Statement

The Board acknowledges that the business decision may have taking into consideration the economic, environmental and social ("EES") risks and opportunities alongside financial implications.

Sern Kou is committed to enhancing stakeholder's long-term value and achieving the Group's sustainable growth by embedding the sustainability considerations in the business strategy and leverage sustainability to reduce risks and seeking of business opportunities at the same time.

GOVERNANCE STRUCTURE

The Board provide strategic direction over sustainability-related matters and risk management across the Group. The risk management process and sustainability governance are helmed by the Risk Management Committee. The head of department and head of division drive and implement sustainability strategies.

SCOPE OF SUSTAINABILITY

This Sustainability Statement covers all subsidiaries of the Group, the scope of sustainability management shall apply to Sern Kou Resources Berhad, Sern Kou Furniture Industries Sdn. Bhd., S.K. Furniture Sdn. Bhd., Valued Products (M) Sdn. Bhd., Souncern Timber Sdn. Bhd. and Sern Kou Plywood Sdn. Bhd.

STAKEHOLDER ENGAGEMENT

Stakeholders	Focus Area	Stakeholders Engagement Mode
(i) Suppliers	• Ensure sustainable supply of quality services and materials • Ensure product quality and safety	• Regular visits • Correspondences • Supplier evaluation & appraisal • Meeting and trade fairs
(ii) Government and Regulators	• Compliance with relevant laws and regulations • Standard and certification	• Correspondences • Audit/inspection
(iii) Employees	• Work-life balance • Employee health and safety • Employee benefits • Career development	• Appraisals • Staff orientation • Open communication • Meetings
(iv) Investors	• Financial performance • Corporate governance	• Annual/Extraordinary General Meetings • Company website • Announcement • Annual report
(v) Customers	• Improve customer's satisfaction • Enhance product value	• Regular visits • Compliance audit • Customer survey • Meeting • Exhibition

MATERIAL SUSTAINABILITY MATTERS

The following material sustainability matters are identified and relevant measurements have been taken in managing the material sustainability matters:-

Material sustainability matter	Managing Material Sustainability Matters
i. Economic	
a) Labour shortage	• Acquire more automated machine in the near future to reduce reliance on labour.
b) Product Responsibility	• Ensure the products with no harm to the safety and health of the customers. • Our furniture manufacturing segment is ISO9001:2015 (Quality Management System (QMS) certified. • Deliver sustainable value in products. • Established quality policy, adhered to ISO 9001 certification. • Investment in modern machineries and equipment in order to satisfy the strict requirements and specifications of customer.
c) Supply Chain Management	• Conducting review on suppliers based on criteria such as price, payment terms, timely delivery, product and service quality. • Evaluation and assessment on suppliers conducted on yearly basis. • Financial stability and performance. • Ensure the supplied products meet the Group's requirements and standard. • Local sourcing to spur the growth of the local economy.
ii. Environment	
a) Quality of raw material	• Rubberwood has been used as main raw material in producing furniture by furniture manufacturing segment. • Rubberwood is the most ecologically "friendly" lumber used in today's furniture industry.
b) Production efficiency	• Automated machine and equipment for safer working environment. • New equipment in production to reduce production waste.
c) Usage of resources	• Electricity : Proper production planning to ensure machinery usage is efficient. Turn off office equipment, machinery and lights which not in use. • Paper : Encourage employees to adopt "reduce, reuse and recycle" concept on using paper.

MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

The following material sustainability matters are identified and relevant measurements have been taken in managing the material sustainability matters:- (continued)

Material sustainability matter	Managing Material Sustainability Matters
iii. Social	
a) Workplace diversity	• Promotes workplace diversity via gender, race, age group. • Annual performance appraisal to all employees and collecting feedback from employees either. • Prohibit age, gender and race discrimination.
b) Workplace safety	• Providing safe working environment to all employees. • Adopted Occupational Safety and Health Policy. • Implement 5S in production floor and office area. 5S is a workplace organization method that uses a list of five Japanese words: seiri, seiton, seisõ, seiketsu, and shitsuke. These have been translated as "Sort", "Set In order", "Shine", "Standardize" and "Sustain". The list describes how to organize a work space for efficiency and effectiveness by identifying and storing the items used, maintaining the area and items, and sustaining the new order. The decision-making process usually comes from a dialogue about standardization, which builds understanding among employees of how they should do the work. • Set up an Occupational Safety and Health Committee ("OSHA"). • Conduct periodic fire drill.
c) Training and development/ Staff welfare	• Provide diversified on-the-job trainings, internal and external trainings for employees and staff orientation program. • Management and employees attended ISO 9001:2015 ISO Awareness Training. • Team building, festive celebrations and annual dinner.

Directors' Profile

TAN SRI ABDUL RAHIM BIN MOHD NOOR

Chairman and Independent Non-Executive Director
76 years of age, Male, Malaysian

TAN SRI ABDUL RAHIM BIN MOHD NOOR was appointed as an Independent Non-Executive Chairman of Sern Kou Resources Berhad ("SKRB") on 14 March 2006.

He graduated with Bachelor of Economics, University of Malaya in 1968 majoring in economics. He joined the Royal Malaysia Police Force as an Assistant Superintendent after a year's stint with Bank Negara Malaysia and had held various key positions before becoming the Inspector General Police of Polis Diraja Malaysia ("IGP") in 1994. Among the key positions he has held were the Chief Police Officer of Selangor, the Commissioner of Police Sabah and the Director of the Special Branch and also the Inspector General of Police for Malaysia. Tan Sri Abdul Rahim played a critical role in bringing to the peaceful end of the insurgency problem posed by the Communist Party of Malaya when he was heading the Police Special Branch. As the IGP, he took a special interest to improve the lot of policemen all over the country by introducing more living quarters for their families and improving their welfare and salary schemes which he considered as necessary to improve police service. Since his retirement in 1999, he runs his own family business apart from joining a few companies. His other directorships include MWE Advanced Structure Sdn. Bhd. and Quasar Industrial Vehicles Sdn. Bhd. (both of which are subsidiaries of MWE Holdings Berhad, a listed company on Bursa Malaysia Securities Berhad) as well as Nico Security Systems Sdn. Bhd. and Ridayu Corporation Sdn. Bhd.

LOW PENG SIAN @ CHUA PENG SIAN

Managing Director
51 years of age, Male, Malaysian

MR LOW PENG SIAN @ CHUA PENG SIAN was appointed as the Chief Operating Officer/ Executive Director of SKRB on 17 November 2009 and re-designated as the Managing Director on 1 January 2015. He is the Chairman of the Remuneration Committee and the Risk Management Committee.

He has extensive experience in running logging and saw milling, wholesale and trading in sawn timber, tropical hardwood and rubber wood as well as trading in hardware and building materials for the past 30 years. He is currently a director of Kiang Lee Timber (M) Sdn. Bhd., CPS Resources Sdn. Bhd., Proactive Wealth Assets Sdn. Bhd., Total Modern Development Sdn. Bhd. and Alloy & Metal Industry Sdn. Bhd. He is also founder and director of Pelangi Technowood Sdn. Bhd. and Soon Hua Hang Timber (M) Sdn. Bhd.

As the Managing Director of the Company, his responsibilities are to ensure and maintain efficient and effective management of the Group's operations and resources.

Mr Low Peng Sian @ Chua Peng Sian is the uncle of Mr Lee Shen Wang, the Executive Director of the Company.

Directors' Profile

KOH KUN CHUAN
Senior Executive Director
59 years of age, Male, Malaysian

MR KOH KUN CHUAN was appointed as Director of SKRB on 18 December 2003. He was then appointed as the Managing Director of SKRB on 23 April 2004. Mr Koh was re-designated from Managing Director to Deputy Chairman on 1 January 2015 and was subsequently re-designated to Senior Executive Director on 1 November 2015. He is also the member of the Risk Management Committee.

He is one of the founders of the SKRB Group and has in-depth knowledge of the furniture industry via his involvement in the industry for more than 25 years. As an Executive Director of SKRB, he is mainly responsible for setting and reviewing the operations strategy and succession plans of the SKRB Group, evaluating and monitoring SKRB Group's performance goals and management of risk. Under his vision and leadership, SKRB Group has grown into a reputable furniture exporter and manufacturer.

YBHG DATUK DR HARIS BIN HAJI SALLEH
Senior Independent Non-Executive Director
71 years of age, Male, Malaysian

YBHG DATUK DR HARIS BIN HAJI SALLEH was appointed as an Independent Non-Executive Director of SKRB on 18 December 2003.

He graduated with a medical degree from the University of Malaya in 1975 and subsequently obtained his membership in the Royal College of Obstetricians & Gynecologists, London, in 1982. He joined Kuala Lumpur Hospital as a Medical Officer in 1976 and later joined Angkatan Tentera Malaysia ("ATM") in 1977 as a Medical Officer with the rank of Captain. He left ATM in 1979 and joined Universiti Kebangsaan Malaysia as a lecturer in the Medical Faculty. He currently has his own private clinic and is practicing in Muar.

As a board member of SKRB and a member of Audit Committee, Remuneration Committee and Nomination Committee, he participated actively in all the committee meetings towards the future improvements of the Company.

DR TAN CHEE HUAT
Independent Non-Executive Director
68 years of age, Male, Malaysian

DR TAN CHEE HUAT was appointed as an Independent Non-Executive Director of SKRB on 18 December 2003. He is the Chairman of the Audit Committee as well as a member of the Remuneration Committee, Nomination Committee and Risk Management Committee.

He obtained his professional qualification from the Association of Chartered Certified Accountants, UK in 1986. He joined Ivan Sopher & Co., UK in 1980 as an Audit Trainee and later joined Kramers of London, UK in 1983 as an Audit Supervisor. He was attached to TY & Associates, Petaling Jaya, from 1986 to 1988 as a Senior Audit Supervisor. In 1989, he set up Lee & Tan Associates and is currently a partner of the firm. He went on to pursue his higher education and obtained a Doctor of Commerce degree from the Irish Business School, UK in 2000. He is presently a Member of the Malaysian Institute of Accountants, a Fellow Member of the Association of Chartered Certified Accountants and the Chartered Tax Institute of Malaysia.

DATUK TAY PUAY CHUAN

Independent Non-Executive Director
55 years of age, Male, Malaysian

DATUK TAY PUAY CHUAN was appointed as an Independent Non-Executive Director of SKRB on 18 December 2003. He is the Chairman of the Nomination Committee as well as a member of Audit Committee.

He started his career with the Polis Diraja Malaysia, Bukit Aman in 1987 and later left the police force as an Inspector in 1992. He joined Fajar Sawmill Sdn. Bhd. in 1992 as a Factory Manager and later left to join Syarikat Teong Sheng Sdn. Bhd. in 1994, also as a Factory Manager until 1997. In 1997, he graduated with a Bachelor of Law (Honours) degree from the University of London. He was called to the Malaysian Bar and admitted as an Advocate and Solicitors in 1998. He was attached to Fadzilah, Ong Chee Seong & Associates from 1998 to 2003 until he set up his own legal practice, Tay Puay Chuan & Co. in Muar, Johor Darul Takzim in 2003.

He is also the Independent Non-Executive Director of Guan Chong Berhad and Homeritz Corporation Berhad.

LEOU THIAM LAI

Independent Non-Executive Director
63 years of age, Male, Malaysian

MR LEOU THIAM LAI was appointed as an Independent Non-Executive Director of SKRB on 19 October 2010. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

He is a Chartered Accountant of the Malaysian Institute of Accountants, a Fellow Member of The Chartered Association of Certified Accountants (UK) and a Member of the Chartered Tax Institute of Malaysia.

He is currently a Partner of Leou & Associates and Leou Associates PLT, Chartered Accountants, Malaysia.

His working experience includes being the Group Accountant of a public listed company, Paper Products Berhad from 1984 to 1987. His roles included managing the Finance division and reporting to the Finance Director. Subsequently, he established Leou & Associates and became a Partner since 1988.

He is currently an Independent Director and Chairman of the Audit Committee of Degem Berhad and also an Independent Non-Executive Director of Menang Corporation (M) Berhad and EA Holdings Berhad.

Directors' Profile

LOO ENG HUA

Executive Director
55 years of age, Male, Malaysian

MR LOO ENG HUA was appointed as the Executive Director of SKRB on 19 October 2010.

He is a Chartered Accountant and Certified Public Accountant. He is a Member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He was with Coorpers & Lybrand (now known as PricewaterhouseCoopers PLT) from 1990 to 1994 and later joined Harbin Roxy (Hong Kong) Entertainment City Ltd. in 1994 as a Finance Manager and later left to join Kemayan Construction Sdn. Bhd. ("KCSB") in 1995, as Group Financial Controller until 1998. He then left KCSB and joined Parit Perak Holding Bhd., as a Senior General Manager until 2001. He joined Jutajaya Holdings Bhd. as Chief Executive Officer / Managing Director from 2002 to 2003 and then joined GM Build Sdn. Bhd. ("GMB") as Chief Financial Officer and promoted to Chief Executive Officer. He left GMB Group in 2008.

LEE SHEN WANG

Executive Director
26 years of age, Male, Malaysian

MR LEE SHEN WANG was appointed as the Executive Director of SKRB on 21 August 2019.

In 2014, he joined Sern Kou Furniture Industries Sdn. Bhd. ("SKFI") as a purchasing executive. He then served as marketing executive from 2016 assisting the sales and marketing functions. He was subsequently promoted to General Manager in 2018 to oversee daily management and operations of SKFI.

He attended high school in Hin Hua High School and passed the Unified Examination Certificate (UEC) – Art & Commercial Stream in year 2011.

He is currently a director of Greencon Valley Sdn. Bhd. and JDWA Groups Sdn. Bhd.

He is responsible for screening and evaluation of the Group's business growth and risk management as well as managing all potential projects, projects in hand and after sales support.

Mr Lee Shen Wang is the nephew of Mr Low Peng Sian @ Chua Peng Sian, the Managing Director and major shareholder of the Company.

Notes to Directors' profile:

1. **Family Relationships**
   Save for Mr Low Peng Sian @ Chua Peng Sian and Mr Lee Shen Wang, none of the Directors have any family relationship with any Director and/or major shareholders of the Company.

2. **Conflict of Interest**
   None of the Directors have any conflict of interest with the Company.

3. **Conviction of Offences**
   None of the Directors have any conviction for offences other than traffic offences within the past 5 years.

4. **Attendances at Board Meetings**
   The details of the Directors' attendance at Board Meetings are set out on page 34 of this Annual Report.

5. **Shareholdings**
   The details of the Directors' interest in the securities of the Company and its subsidiaries are set out on pages 50, 51, 129 and 132 of this Annual Report.

6. **Directorship in other public companies**
   Save as disclosed above, none of the other Directors hold any directorship in public companies.

Key Senior Management

MS SIAH CHEW PENG

MS SIAH CHEW PENG, female, a Malaysian age 41, was appointed as Chief Financial Officer on 1 April 2007.

She is responsible for overseeing the corporate finance function of the Group and handles accounting, financial administration and tax related matters as well as the compliance and reporting obligations of the Group such as cash flow planning, financial analysis and financial reporting.

She is a Chartered Accountant of the Malaysian Institute of Accountants and Certified Practising Accountants of CPA Australia and GST Tax Agent. She was with KL Tan & Co. from 2000 to 2004 and joined Hock Hai Group Holdings Sdn. Bhd. as Group Finance Manager and Takaso Rubber Products Sdn. Bhd. as Accountant.

MR LEE KOK WAI

MR LEE KOK WAI, male, a Malaysian aged 49, was appointed as General Manager of the kiln drying and lamination segment on 4 April 2009.

He is responsible for all aspects of business, including daily production operations and administrative functions. He also works very closely with the sales team in order to ensure that the Company achieves the desired profitability and growth.

He was with Gold Breeze Corporation Sdn. Bhd. as General Manager from 1995 to 2008.

MS STELLA SIOW LI PING

MS STELLA SIOW LI PING, female, a Malaysian age 40, was appointed as Administration Manager on 22 December 2014.

She supports the business operation by supervising staff, planning, organising and implementing the administrative system and ensuring the operation team adheres to the SKRB Group's policies and regulation. She is also responsible for overseeing the facilities services and maintenance activities.

Ms Stella Siow graduated from University Science Malaysia with Bachelor of Science (Humanities) Hons. She joined Evergreen Fibreboard Berhad as an Executive in Administration from 2004 to 2010 and subsequently an Administration Manager in Soon Her Sing Ind. Sdn. Bhd. (ACMI) from 2010 to 2014.

Notes to Key Senior Management's profile:

1. **Family Relationships**
   None of the Key Senior Management has any family relationship with any Director and/or major shareholders of the Company.
2. **Conflict of Interest**
   None of the Key Senior Management has any conflict of interest with the Company.
3. **Conviction of Offences**
   None of the Key Senior Management has any conviction for offences other than traffic offences within the past 5 years.
4. **Directorship in other public companies**
   Save as disclosed above, none of the Key Senior Management holds any directorship in public companies.

Corporate Information

BOARD OF DIRECTORS

Tan Sri Abdul Rahim Bin Mohd Noor
Chairman / Independent Non-Executive Director

Low Peng Sian @ Chua Peng Sian
Managing Director

Koh Kun Chuan
Senior Executive Director

Loo Eng Hua
Executive Director

YBhg Datuk Dr Haris Bin Haji Salleh
Senior Independent Non-Executive Director

Dr Tan Chee Huat
Independent Non-Executive Director

Datuk Tay Puay Chuan
Independent Non-Executive Director

Leou Thiam Lai
Independent Non-Executive Director

Lee Shen Wang
Executive Director
(Appointed on 21 August 2019)

AUDIT COMMITTEE

Dr Tan Chee Huat - *Chairman*
YBhg Datuk Dr Haris Bin Haji Salleh
Datuk Tay Puay Chuan
Leou Thiam Lai

NOMINATION COMMITTEE

Datuk Tay Puay Chuan - *Chairman*
Dr Tan Chee Huat
YBhg Datuk Dr Haris Bin Haji Salleh
Leou Thiam Lai

REMUNERATION COMMITTEE

Low Peng Sian @ Chua Peng Sian
- *Chairman*
YBhg Datuk Dr Haris Bin Haji Salleh
Dr Tan Chee Huat
Leou Thiam Lai

RISK MANAGEMENT COMMITTEE

Low Peng Sian @ Chua Peng Sian
– *Chairman*
Koh Kun Chuan
Dr Tan Chee Huat

CHARTERED SECRETARIES

Lim Lee Kuan (MAICSA 7017753)
Ng Sally (MAICSA 7060343)

REGISTERED OFFICE

Lot PTD 6019 (Lot 8804)
Jalan Perindustrian 1
Kawasan Perindustrian Bukit Bakri
Mukim Bakri 84200 Muar
Johor Darul Takzim
Telephone No. : 606.986.5562
Facsimile No. : 606.986.5569
Email : sernkou@sernkou.com
Website : www.sernkou.com

SHARE REGISTRAR

Boardroom Share Registrars Sdn. Bhd.
(formerly known as Symphony Share Registrars Sdn. Bhd.)
11th Floor, Menara Symphony
No. 5, Jalan Prof. Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan
Telephone No. : 603.7890.4700
Facsimile No. : 603.7890.4670

PRINCIPAL BANKERS

HSBC Bank Malaysia Berhad
Malayan Banking Berhad

AUDITORS

Messrs BDO PLT
(LLP0018825-LCA & AF 0206)
Chartered Accountants
Suite 18-04, Level 18
Menara Zurich
15 Jalan Dato' Abdullah Tahir
80300 Johor Bahru
Johor Darul Ta'zim
Telephone No. : 607.331 9815
Facsimile No. : 607.331 9817

STOCK EXCHANGE

Bursa Malaysia Securities Berhad
Main Market
Stock Name : SERNKOU
Stock Code : 7180
Warrant Code : 7180WA
Sector : Consumer Products & Services
Sub-Sector : Household Goods

Notice Of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Nineteenth Annual General Meeting ("AGM") of SERN KOU RESOURCES BERHAD ("Company" or "SKRB") will be held at Level 2, Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1, Kawasan Perindustrian Bukit Bakri, Mukim Bakri, 84200 Muar, Johor Darul Takzim on Tuesday, 26 November 2019 at 11.00 a.m. for the following purposes:-

1. To receive the audited financial statements for the financial year ended 30 June 2019 together with the Reports of the Directors and Auditors thereon. **(Please refer to Explanatory Note 1)**

2. To re-elect the following Directors who are retiring in accordance with Article 128 of the Company's Constitution:-

   i) Tan Sri Abdul Rahim Bin Mohd Noor **(Ordinary Resolution 1)**

   ii) Datuk Tay Puay Chuan **(Ordinary Resolution 2)**

   iii) Dr Tan Chee Huat **(Ordinary Resolution 3)**

3. To re-elect Mr Lee Shen Wang, the Director who is retiring in accordance with Article 133 of the Company's Constitution. **(Ordinary Resolution 4)**

4. To approve the payment of Directors' Fees amounting to RM379,800.00 for the financial year ended 30 June 2019. **(Ordinary Resolution 5)**

5. To approve the payment of Directors' Remuneration (excluding Directors' Fees) payable to the Board of the Company and its subsidiaries up to an amount of RM18,751.50 for the period from 1 December 2019 until 30 November 2020. **(Ordinary Resolution 6)**

6. To re-appoint Messrs BDO PLT (LLP0018825-LCA & AF 0206) as Auditors for the ensuing year and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 7)**

Special Business

To consider and if thought fit, to pass the following resolutions, with or without modifications:-

7. **Ordinary Resolution**
   - Authority to Issue Shares

   "THAT subject always to the Companies Act 2016, Constitution of the Company and approvals from Bursa Malaysia Securities Berhad and any other governmental/regulatory bodies, where such approval is necessary, authority be and is hereby given to the Directors pursuant to Sections 75 and 76 of the Companies Act 2016 to issue not more than ten percent (10%) of the issued capital of the Company at any time upon any such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit or in pursuance of offers, agreements or options to be made or granted by the Directors while this approval is in force until the conclusion of the next Annual General Meeting of the Company and that the Directors be and are hereby further authorised to make or grant offers, agreements or options which would or might require shares to be issued after the expiration of the approval hereof." **(Ordinary Resolution 8)**

8. **Ordinary Resolutions**
- Continuing in office as Independent Non-Executive Directors

(i) "THAT subject to the passing of Ordinary Resolution 1, authority be and is hereby given to Tan Sri Abdul Rahim Bin Mohd Noor, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, to continue to act as an Independent Non-Executive Director of the Company." **(Ordinary Resolution 9)**

(ii) "THAT authority be and is hereby given to YBhg Datuk Dr Haris Bin Haji Salleh, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, to continue to act as an Independent Non-Executive Director of the Company." **(Ordinary Resolution 10)**

(iii) "THAT subject to the passing of Ordinary Resolution 2, authority be and is hereby given to Datuk Tay Puay Chuan, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, to continue to act as an Independent Non-Executive Director of the Company." **(Ordinary Resolution 11)**

(iv) "THAT subject to the passing of Ordinary Resolution 3, authority be and is hereby given to Dr Tan Chee Huat, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, to continue to act as an Independent Non-Executive Director of the Company." **(Ordinary Resolution 12)**

(v) "THAT authority be and is hereby given to Mr Leou Thiam Lai, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, to continue to act as an Independent Non-Executive Director of the Company." **(Ordinary Resolution 13)**

9. **Special Resolution**
Proposed Adoption of New Constitution of the Company **(Special Resolution 1)**

"THAT approval be and is hereby given to revoke the existing Memorandum and Articles of Association/Constitution of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company as set out in Appendix A accompanying the Company's Annual Report for the financial year ended 30 June 2019 be and is hereby adopted as the Constitution of the Company AND THAT the Directors of the Company be and are hereby authorised to assent to any modifications, variations and/or amendments as may be required by the relevant authorities and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing.

AND THAT the Secretary be hereby authorised and instructed to do all the necessary and deemed fit to lodge the Constitution as adopted herewith with the Companies Commission of Malaysia for and on behalf of the Company in accordance with Section 36 of the Companies Act 2016."

10. To transact any other business for which due notice has been given.

By Order of the Board

LIM LEE KUAN (MAICSA 7017753)
NG SALLY (MAICSA 7060343)
Chartered Secretaries

Kuala Lumpur
23 October 2019

Notes:

(1) A member may appoint only one (1) proxy to attend on the same occasion. A proxy may but need not be a member of the Company. If the proxy is not a member, he need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies. There shall be no restriction as to the qualification of the proxy.

(2) Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 it may appoint only one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

(3) Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities accounts ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. If a Member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his holding to be represented by each proxy.

(4) The instrument appointing a proxy shall be in writing executed under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.

(5) The instrument appointing a proxy, with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power or authority, shall be deposited at the Registered Office of the Company at Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1, Kawasan Perindustrian Bukit Bakri, Mukim Bakri, 84200 Muar, Johor Darul Takzim not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting as the case may be.

(6) The Date of Record of Depositors for the purpose of determining Members' entitlement to attend, vote and speak at the Meeting is 19 November 2019.

Explanatory Notes:

(i) **Item 1 of the Agenda**

The Audited Financial Statements under this agenda item is meant for discussion only as the provision of Section 248(1) and Section 340(1)(a) of the Companies Act 2016 (the "Act") does not require a formal approval of the shareholders and hence this Agenda item is not put forward for voting.

(ii) **Item 4 and 5 of the Agenda – Ordinary Resolutions 5 and 6**

Section 230(1) of the Act provides amongst others, that "the fees" of the directors and "any benefits" payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, the Board agreed that the shareholders' approval shall be sought at the Nineteenth AGM on the Directors' remuneration in two (2) separate resolutions as below:-

- Resolution 5 on payment of Directors' Fees for the financial year ended 30 June 2019; and
- Resolution 6 on payment of Directors' Remuneration (excluding Directors' fees) payable to the Board of the Company and its subsidiaries for the period ended from 1 December 2019 until 30 November 2020 ("Relevant Period").

The payment of the Directors' Fees in respect of the financial year ended 30 June 2019 will only be made if the proposed Resolution 5 has been passed at the Nineteenth AGM pursuant to Section 111 of the Company's Constitution and Section 230(1) of the Act.

The estimated total amount of remuneration (excluding Directors' Fees) for the Relevant Period of RM18,751.50 comprise the insurance premium.

Payment of Directors' Remuneration (excluding Directors' Fees) will be made by the Company and its subsidiaries on a monthly basis and/or as and when incurred if the proposed Resolution 6 has been passed at the Nineteenth AGM. The Board is of the view that it is just and equitable for the Directors to be paid the Directors' Remuneration (excluding Directors' Fees) on a monthly basis and/or as and when incurred, particularly after they have discharged their responsibilities and rendered their services to the Company and its subsidiaries throughout the financial period from 1 December 2019 until 30 November 2020. In the event, where the payment of Directors' Remuneration (excluding Directors' Fees) payable during the above period exceeded the estimated amount sought at the AGM, a shareholders' approval will be sought at the next AGM.

(iii) **Item 7 of the Agenda - Ordinary Resolution 8**

The proposed Ordinary Resolution 8, if passed, will empower the Directors from the date of this AGM, to allot and issue up to a maximum of 10% of the issued share capital of the Company for the time being (other than bonus or rights issue) for such purposes as they consider would be in the best interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next AGM of the Company.

The rationale for this general mandate is to eliminate the need to convene general meeting(s) from time to time to seek shareholders' approval as and when the Company issues new shares for future business opportunities and thereby reducing administrative time and cost associated with the convening of such meeting(s). The general mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placement of shares, for the purpose of future investment projects(s), working capital, repayment of borrowings and/ or acquisition.

This is the renewal of the mandate obtained from the shareholders at the last AGM held on 22 November 2018 ("the Previous Mandate"). The Previous Mandate was not utilised and no proceeds were raised.

(iv) **Item 8 of the Agenda - Ordinary Resolutions 9 to 13**

Continuing In Office as Independent Non-Executive Directors

The Nomination Committee and the Board of Directors have assessed the independence of Tan Sri Abdul Rahim Bin Mohd Noor, YBhg Datuk Dr Haris Bin Haji Salleh, Datuk Tay Puay Chuan, Dr Tan Chee Huat and Mr Leou Thiam Lai, who have served as the Independent Non-Executive Directors of the Company for a cumulative term of 9 years or more, and recommended them to continue acting as the Independent Non-Executive Directors of the Company based on the following justifications:-

a) they fulfilled the criteria under the definition of Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and thus, they would able to provide a check and balance and bring an element of objectivity to the Board;
b) they are familiar with the Company's business operations and are able to advise the Board diligently;
c) they have devoted sufficient time and attention to their professional obligations for informed and balanced decision making by actively participated in Board discussion and provided an independent voice to the Board; and
d) they have exercised their due care during their tenure as Independent Non-Executive Directors of the Company and carried out their professional duties in the best interest of the Company and shareholders.

(v) **Item 9 of the Agenda - Special Resolution 1**

The proposed Special Resolution 1, if passed, will bring the Company's Constitution in line with the enforcement of the Companies Act 2016 and to enhance administrative efficiency.

Hence, the shareholders' approval is hereby sought for the Company to revoke the existing Memorandum and Articles of Association/ Constitution of the Company and to adopt the new Constitution as per the Appendix A accompanying this Annual Report. The new Constitution shall take effect upon the approval of shareholders of not less than seventy-five (75%) who are entitled to vote and do vote in person or by proxy at the Nineteenth AGM.

Audit Committee Report

The Board of Directors ("the Board") of Sern Kou Resources Berhad ("the Company") is pleased to present the Audit Committee ("the AC") Report for the financial year ended 30 June 2019.

COMPOSITION OF AC

The composition of the AC are as follows:

Chairman
Dr Tan Chee Huat - *Independent Non-Executive Director*

Member
Datuk Tay Puay Chuan - *Independent Non-Executive Director*
YBhg Datuk Dr Haris Bin Haji Salleh - *Senior Independent Non-Executive Director*
Leou Thiam Lai - *Independent Non-Executive Director*

AUDIT COMMITTEE MEETINGS

The AC met five (5) times during the financial year ended 30 June 2019. The details of their attendance at meetings are as follows:

Name of Members	No. of Meetings Attended	Percentage (%)
Dr Tan Chee Huat	5/5	100
Datuk Tay Puay Chuan	5/5	100
YBhg Datuk Dr Haris Bin Haji Salleh	5/5	100
Leou Thiam Lai	5/5	100

The Board assesses the performance of the AC through an annual Board Committee evaluation and is satisfied that they are able to discharge their function, duties and responsibilities in accordance with the Terms of Reference of the AC, which is published on the Company's website.

Taken into consideration of the Malaysian Code on Corporate Governance 2017 and the amendments to the listing requirements of Bursa Malaysia Securities Berhad, the Terms of Reference of the AC had been revised to ensure appropriate corporate governance and compliance with the guidelines and requirements and amongst others, the rights of the AC, which shall include:-

(a) the authority to investigate any matter within its terms of reference and have the right of direct access to anyone in the Company to conduct a special investigation to be carried out for fraud, violation of code of conduct or an illegal act;
(b) the resources which are required to perform its duties;
(c) the full and unrestricted access to any information pertaining to the Group;
(d) the direct communication channels with the external auditors and the internal auditors;
(e) the right to obtain independent professional or other advice and to invite outside experts or advisors such as valuers, or tax consultants with relevant experience and expertise to attend the AC meetings (if required) and to brief the AC at the Company's expense; and
(f) the right to convene meetings with the internal auditors and the external auditors, excluding the attendance of the Executive Directors, Management or employees of the Group, whenever deemed necessary.

The Group's external auditors, internal auditors and certain designated members of senior management also attended the meetings at the invitation of the Chairman of the AC to facilitate direct communication and to provide clarifications on the audit issues, operation matters as well as the risk management and internal controls of the Group.

The AC shall meet with the external auditors on separate sessions without the presence of Executive Directors and Management, whenever deemed necessary. The attendance of the external auditors and internal auditors at the AC meetings would facilitate the AC to raise their concerns, if any, on the audit reports, audit findings and the internal controls systems of the Group in order for the AC to discharge their duties and responsibilities.

After each AC meeting, the AC Chairman submitted a report on matters deliberated to the Board for their attention and deliberation and conveyed to the Board the significant or major audit issues concern raised by the external auditors, internal auditors and the AC.

Matters reserved for the Board's approval were tabled at the Board meetings. The Company Secretary then documented the decisions made and actions required and forwarded to Management for their action.

The AC is guided by the Terms of Reference of the AC, which a copy of the same has been published on the Company's website at http://www.sernkou.com.

SUMMARY OF ACTIVITIES OF THE AC

In line with the Terms of Reference of the AC, the following activities have been undertaken by the AC during the financial year ended 30 June 2019, which are summarised as follows:-

a) Ensuring Financial Statements Comply with Applicable Malaysian Financial Reporting Standards

- Reviewed the quarterly financial results, audited financial statements and annual report of the Group and the Company and ensure, amongst others, that it complies with applicable Malaysian Financial Reporting Standards prior to submission to the Board for consideration and approval.
- Reviewed any changes in the implementation of major accounting policies and practices, major judgemental and risk areas, significant adjustments resulting from the audit, the going concern assumption, compliance with accounting standards, compliance with Listing Requirements of Bursa Malaysia Securities Berhad and other legal requirements.
- Monitored the integrity of the financial statements of the Company and assessed whether the financial report represents a true and fair view of the Company's performance and ensured compliance with the regulatory requirements.
- Proposed best practices on disclosure in the financial statements and the annual reports of the Company, to be in line with the recommendations set out in the Malaysian Code of Corporate Governance and other applicable rules and regulations.

b) Reviewing the Audit Findings of the External Auditors and Assessing the Performance, Suitability and Independence of External Auditors:

- Reviewed the external auditors' audit plans, its scope of work and nature for the year and for the Group.
- Reviewed the external auditors' findings arising from audits and in particular, responses, appropriate action taken by Management.
- Reviewed the results of the evaluation of the accounting policies and systems of internal controls within the Group and the assistance given by the officers of the Company to them, including any difficulties or disputes with Management encountered during the audit.

- Reviewed the fees and expenses paid to the external auditors, including fees paid for non-audit services during the year and assessed the independence of the external auditors for the re-appointment as external auditors. The AC is of the opinion that the independence of the external auditors has not been compromised based on the independent confirmation provided by the external auditors.
- Conducted private meetings with the External Auditors without the presence of Executive Directors or employees of the Group.
- Reviewed the co-operation and assistance given by Management to the External Auditors.

c) Reviewing the Audit Findings of the Internal Auditors and Assisting the Board in Reviewing the Effectiveness and Adequacy of Systems of Internal Control in the Key Operation Processes

- Reviewed the internal audit plan and the adequacy of the scope, competency and resources of the internal audit function and that it has the necessary authority to carry out its work.
- Reviewed and discussed with the internal auditors, their audit findings, recommendations made, management's response to the audit findings and proposed action plans, including those issues arising during the course of audit (in the absence of Management where necessary).
- Reviewed the effectiveness and efficiency of the internal controls system in place and the risk factors affecting the Company as well as the action plans taken by Management to resolve the issues to ensure adequacy of the internal controls system.
- Assisted the Board in identifying the principal risks, review and assess the effectiveness of the risk management framework and internal control systems based on the reports and recommendations from the internal auditors and report to the Board on its findings.
- Reviewed the Statement of Risk Management and Internal Control and the Sustainability Statement of the Annual Report.

d) Whistleblowing and fraud

- Reviewed the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and reviewed the Company's procedures for detecting fraud.
- Cultivated the awareness of the employees and ensured the whistleblower could report directly to the AC on any possible wrongdoings or fraud detected.

e) Related Party Transactions

- Reviewed related party transactions entered into by the Group and any conflict of interest situation that may arise within the Group and ensured that all transactions are at arm's length basis. There were no material related party transactions noted during the financial year.

f) Overseeing the Governance Practices in the Group

- Reviewed and issued the AC Report for inclusion in the Annual Report.
- Reviewed the Statement on Risk Management and Internal Control and Statement on Corporate Governance to ensure adherence to legal and regulatory reporting requirements and appropriate resolution of all accounting matters requiring significant judgement and recommended the same to the Board for approval.
- Reviewed the minutes of meetings of the AC.
- Reviewed the Terms of Reference of the AC.

SUMMARY OF ACTITIVITIES OF THE INTERNAL AUDIT FUNCTIONS

The Group's internal audit function which reports directly to the AC, is outsourced to a professional firm. The outsourced internal auditors assist the Board via the AC in providing independent assessment of the adequacy, efficiency and effectiveness of the Group's risk management and internal control systems.

The role of the internal audit function is independent and not related to the Group's external auditors. The scope of review of the outsourced internal audit function is determined and approved by the AC with feedback from Management. During the financial year under review, the outsourced internal audit function carried out reviews in accordance with the audit plan approved by the AC, which focused on areas with high risk and ascertain that the risks were effectively mitigated by controls.

Summary of works undertaken by the internal auditors comprised the followings:-

- Reviewed compliance with policies, procedures and standards, relevant external rules and regulations;
- Assessed the adequacy and effectiveness of the Group's system of internal control and recommended appropriate actions to be taken where necessary to mitigate risk identified;
- Conducted internal audits and highlighted to the AC the audit findings which required follow-up actions by Management, any outstanding audit issues which required corrective actions to be taken to ensure an adequate and effective internal control system within the Group, as well as any weaknesses in the Group's internal control system; and
- Ensured that those weaknesses were appropriately addressed and that recommendations from the internal audit reports and corrective actions on reported weaknesses were addressed appropriately within the required timeframe by Management.

During the financial year ended 30 June 2019, the outsourced internal audit function conducted regular reviews of business processes in accordance with the internal audit plan approved by the AC as follows:-

i) Operations Management (for Sern Kou Plywood Sdn. Bhd. and Valued Products (M) Sdn. Bhd. only) on:

- Policies and Procedures
- Production Planning and Scheduling
- Production Progress Tracking
- Production Output
- Machinery and Equipment Maintenance

ii) Inventory Management (for Sern Kou Plywood Sdn. Bhd., Valued Products (M) Sdn. Bhd. and Sern Kou Furniture Industries Sdn. Bhd. only) on:

- Inventory Physical Count
- Inventory Tracking System
- Stock Arrangement
- Stock Level Monitoring
- Warehouse Control and Access
- Shipping or Delivery Control
- Receiving Monitoring

iii) Financial Management, which basically covered Production Department:

- Department Meeting and Discussion
- Annual Budgeting
- Cash Flow Control
- Accounts Receivables and Debtors Aging
- Accounts Payables and Creditors Aging
- Petty Cash Monitoring and Payment
- Accounts Adjustments

Based on the internal audits conducted, the AC and internal auditors did not detect any significant weakness which would result in material losses, contingencies or uncertainties that would require disclosure in the Annual Report.

The details of the internal audit function are set out in the Statement on Risk Management and Internal Control of this Annual Report.

The Group had incurred a total amount of RM36,000 for the internal audit function for the financial year ended 30 June 2019.

This report is made in accordance with the resolution of the Board dated 18 October 2019.

Corporate Governance Overview Statement

The Board of Directors ("Board") of Sern Kou Resources Berhad (the "Company" or "SKRB") remains committed in maintaining the highest standards of corporate governance ("CG") within the Company and adhering to the principles and best practices of CG, through observing and practising the core values of Malaysian Code on Corporate Governance 2017 ("MCCG") and the Corporate Governance Guide issued by Bursa Malaysia Securities Berhad ("Bursa Securities"). The commitment from the top paves the way for Management and all employees to ensure the Company's businesses and affairs are effectively managed in the best interest of all stakeholders.

The Board is pleased to present an overview on the application of the principles as set out in the MCCG and the extent to which the Company and the subsidiaries ("Group") have complied with the three (3) key principles of the MCCG during the financial year under review.

This statement should be read together with the 2019 CG Report of the Company which is available on the Company's website at http://www.sernkou.com.

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS

PART I – BOARD RESPONSIBILITIES

1. Board's Leadership on Objectives and Goals

1.1 Strategic Aims, Values and Standards

The Board is responsible for the overall performance of the Group and focuses mainly on the strategic management, performance monitoring and measurement, risk management and internal controls, standards of conduct, shareholders' communication and critical business decisions. The matters reserved for the collective decision of the Board are listed in the Board Charter which is available on the corporate website.

The Board implements a strategy planning process to oversee the matters delegated to Management and ensures the goals and targets are in line with the Company's strategic plan and long-term objectives.

The key responsibilities of the Board include reviewing and adopting the strategic plan, overseeing the conduct of business, risk management, succession planning, overseeing the development and implementation of a shareholders' communication policy and reviewing the internal control systems to ensure its effectiveness to mitigate the business risks.

The Board acknowledges the essential of ensuring that the Company's strategies promote sustainability. As in the furniture industry, the Board is strongly aware of the importance of balancing the environmental, social and governance aspect with the interest of various stakeholders, is essential to enhancing investors' perception and public trust.

The Sustainability Statement stated the actions taken by the Group in protecting the environment while striking to achieve a better performance towards the goal at sustainable development.

The Board is constantly mindful of the need to safeguard the interests of the Group's stakeholders.

In order to facilitate the effective discharge of its duties, the Board delegates and confers some of the Board's authorities and discretion on the Executive Directors as well as on properly constituted Committees comprising Non-Executive Directors which operate within clearly defined terms of reference.

The Board Committees consist of Audit Committee ("AC"), Nomination Committee ("NC"), Remuneration Committee ("RC") and Risk Management Committee ("RMC"). The power delegated to the respective Board Committees are set out in the Terms of Reference of each of the committees which is available on the Company's website.

Overall, it is the governance responsibilities of the Board to lead and control the Group. The Board plans the strategic direction, development and control of the Group and has embraced the responsibilities listed in the MCCG to discharge its stewardship and fiduciary responsibilities. The Executive Directors are responsible for making and implementing operational and corporate decisions while the Non-Executive Directors balance the board accountability by providing their independent views, advice and judgment in safeguarding the interests of the shareholders.

1.2 Chairman

The Chairman of the Company leads the Board with a keen focus on governance and compliance and acts as a facilitator at Board meetings to ensure that contributions by Directors are forthcoming on matters being deliberated and that no Board member dominates discussion. Together with the other Independent Non-Executive Directors, he leads the discussion on the strategies and policies recommended by Management. He chairs the meetings of the Board and the shareholders, and thus ensuring effective communication with the shareholders as well as the relevant stakeholders.

1.3 Separation of the Positions of the Chairman and Managing Director ("MD")

The position of the Chairman and the MD is held by different individuals, accordingly there is a clear division of responsibilities between the Chairman and the MD to ensure that there is a continued balance of power and authority. In addition, the separation of these positions promotes accountability and facilitates division of responsibilities.

The Chairman of the Board is Tan Sri Abdul Rahim Bin Mohd Noor, an Independent Non-Executive Director whilst the MD is Mr Low Peng Sian @ Chua Peng Sian. The MD, together with the Executive Directors, have the overall responsibilities over the Group's operating units, organisational effectiveness and implementation of the Board policies and decisions.

The Chairman is primarily responsible for matters pertaining to the Board and the overall conduct of the Group and is committed to good CG practices and has been leading the Board towards high performing culture while the MD is responsible for the implementation of board policies and decisions approved by the Board and he is obliged to report to the Board at Board Meetings all material matters currently or potentially affecting the Group and its performance, including all strategic projects and regulatory development which might have an impact on the daily operation.

All decisions of the Board are made unanimously or be consensus. To ensure balance of power and authority on the Board, majority of the Board members are Independent Non-Executive Directors. The Board is satisfied and assured that no individual or group of Directors has unfettered powers of decision that could create a potential conflict of interest.

1.4 Qualified and Competent Secretaries

In performing their duties, all Directors have access to the advice and services of suitably qualified Company Secretaries. The Company Secretaries act as the CG counsel and ensure good information flow within Board, Board Committees and Management. The Company Secretary attends all meetings of the Board and Board Committees whenever necessary and guides the Directors on the requirements encapsulated in the Company's Constitution and legislative promulgations such as the Companies Act 2016, Main Market Listing Requirements ("MMLR"), the MCCG, etc.

1.5 Access to Information and Advice

All Directors have access to the advice and services of the Company Secretaries as well as to all information within the Group in ensuring the effective functioning of the Board. In addition, the Board may seek independent professional advice on specific issues at the Company's expenses to enable it to discharge its duties in relation to the matters being deliberated, where necessary.

The Directors may seek advice from Management on issues under their respective purview and interact directly with Management or request further explanation, information or updates on any aspect of the Company's operations or business concern from them.

Schedule of Board and Committee meetings are determined in advance at the beginning of every year. This enables Management to plan ahead the yearly business and corporate affairs and ensure timely preparation of information for dissemination to the Board. The Board has a defined schedule of matters reserved for Board's decision and that the Board papers for meetings will be circulated to the Board at least seven (7) days prior to the meeting. This is to ensure all Directors have sufficient time to obtain further explanation, where necessary, in order to be fully informed of the matters to be discussed during the meeting.

The Company Secretary is entrusted to record the Board's deliberations, in terms of issues discussed, ensures that the deliberations at Board and Board Committee meetings are well documented, and subsequently communicated to Management for appropriate actions. The minutes of the previous Board and Board Committee meetings are distributed to the Directors/ Committee prior to the meeting for their perusal before confirmation of the minutes at the commencement of the following Board meeting. The Directors may comment or request clarification before the minutes are tabled for confirmation as a correct record of the proceedings of the meeting. Management provides Directors with complete and timely information prior to meetings and on-going basis to enable them to make informed decisions.

2. Demarcation of Responsibilities

2.1 Board Charter

The Board Charter is reviewed regularly to ensure that it complies with the best practices and regulations and thus, the last review of the Board Charter was conducted on 9 October 2018.

In discharging its duties, the Board is constantly mindful of the need to safeguard the interests of the Group's stakeholders. In order to facilitate the effective discharge of its duties, the Board is guided by the Board Charter, which is available on the Company's website.

The Board Charter serves to ensure that all Board members acting on behalf of the Group are aware of their expanding roles and responsibilities. It sets out the strategic intents and specific responsibilities to be discharged by the Board members collectively and individually. It also regulates on how the Board conducts business in accordance with CG principles.

The Board Charter would be periodically reviewed and updated in accordance with the needs of the Company and any new regulations that may have impact on the discharge of the Board's responsibilities.

3. Promoting Good Business Conduct and Corporate Structure

3.1 Code of Conduct and Ethics

The Board is committed in maintaining a corporate culture which engenders ethical conduct. The ethical standards are formalised through the Directors' Code of Conduct and Corporate Disclosure Policy, which requires all Directors and Employees to observe high ethical business standards, honesty and integrity and to apply these values to all aspects of the Group's business and professional practice and act in good faith in the best interests of the Group and its shareholders.

The Directors' Code of Conduct and Corporate Disclosure Policy are available on the Company's website.

3.2 Whistleblowing Policy

The Board has adopted a whistleblowing policy for the Group as a measure to promote the highest standard of CG. The whistleblowing policy outlines the avenues for all employees, suppliers, agents, contractors and customers of the Group to raise concerns or disclose in good faith any improper conduct within the Group and to enable prompt corrective actions and measures to resolve them effectively.

Any employee and member of public who has reasonable belief that there is serious malpractice relating to the matter disclosed, may direct such complaint and report to the MD or Chairman of the AC, either through formal or informal channels.

Management will ensure that the whistleblower who raises a genuine complaint in good faith shall not be penalised for such disclosure and the identity of such complainant shall be kept confidential.

The Whistleblowing Policy is included in the Board Charter and published on the Company's website.

PART II – BOARD COMPOSITION

4. Strengthen Board's Objectivity

4.1 Board Composition

The Board currently consists of nine (9) members, five (5) Independent Non-Executive Directors and four (4) Executive Directors.

The present composition of the Board is in compliance with Paragraph 15.02 of the MMLR and MCCG as more than half of its members are Independent Directors.

The Board members have diverse backgrounds and experiences in various fields. Collectively, they bring a broad range of skills, experience and knowledge to direct and manage the Group's businesses. The Board is satisfied that, through the annual performance appraisal of the Board, the Board Committees and individual directors, the current board composition represents a mix of knowledge, skills and experience required to discharge the Board's duties and responsibilities effectively.

4.2 Tenure of Independent Director

The NC and the Board of Directors had reviewed and assessed the independence of Tan Sri Abdul Rahim Bin Mohd Noor, YBhg Datuk Dr Haris Bin Haji Salleh, Datuk Tay Puay Chuan, Dr Tan Chee Huat and Mr Leou Thiam Lai, who have served the Company for a tenure of more than nine (9) years, to continue to act as Independent Directors of the Company and would recommend the continuance of their office as Independent Non-Executive Directors to the shareholders' approval at the forthcoming Annual General Meeting ("AGM").

4.3 Policy of Independent Director's Tenure

The Board has adopted the recommendation of the MCCG that the tenure of an Independent Director should not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years, an Independent Director may continue to serve the Board subject to the Director's re-designation as a Non-Independent Non-Executive Director. Otherwise, the Board must justify and seek shareholders' approval in the event that a Director, who has served in that capacity for more than nine (9) years, retains as an Independent Director.

4.4 Diverse Board and Senior Management Team

The Board acknowledges the importance of diverse Board and Senior Management. The Group strictly adhered to the practice of non-discrimination of any form, whether based on race, age, religion and gender throughout the organisation, which including the selection of Board members.

The Board encourages a dynamic and diverse composition by nurturing suitable and potential candidates equipped with competency, skills, experience, character, time commitment, integrity and other qualities in meeting the future needs of the Company.

The Group endeavour to meet the diversity at the Senior Management level and the composition of the Key Senior Management of the Group comprises a mixture of both genders.

4.5 Gender Diversity

The Board acknowledges the importance of boardroom diversity and takes cognisance of the recommendation of the MCCG to have at least 30% of female directors.

The Board established the Boardroom Diversity Policy as set out in Appendix 6 of the Board Charter of the Company, which is available on the Company's website.

Nevertheless, in the event of a vacancy in the Board, the Board, through the NC has been tasked to consider the female representation when a vacancy arises and/or suitable candidates are identified. However, the appointment of a new Board member will not be guided solely by gender but will also take into account the skills-set, experience and knowledge of the candidate. The Company's prime responsibility in new appointments is always to select the best candidates available.

Hence, the normal selection criteria based on an effective blend of competencies, skills, extensive experience and knowledge to strengthen the Board remains a priority.

4.6 Re-Election of Directors

Any Director appointed during the year, either to fill a casual vacancy or as an additional Director, shall hold office only until the next AGM and shall then be eligible for re-election in accordance with the Company's Constitution.

The Constitution states that one-third (1/3) of the Directors including the Managing Director shall retire by rotation and seek re-election at the AGM and that each Director shall submit himself/herself for re-election at least once in every three (3) years. A retiring Director is eligible for re-election.

This provides an opportunity for shareholders to renew their mandates. The election of each Director is voted separately.

To assist shareholders to renew their decision, sufficient information such as personal profile, meetings attendance and the shareholdings of each Director standing for election are available in the Annual Report.

4.7 Identification of New Candidates for Appointment of Directors

The Board has entrusted the NC with the responsibility to consider, review and recommend the appointment of potential candidates to the Board proposed by Management, any Director or shareholder, taking into consideration the candidates' skills, knowledge, expertise and experience, time commitment, character, professionalism and integrity based on the 'Fit and Proper' standards for Directors and Senior Management staff as prescribed in the Board Charter.

For the year 2019, the NC had reviewed and nominated Mr Lee Shen Wang to be appointed as an Executive Director of the Company and recommended the same for the Board's approval. The NC also noted the appointment of Mr Lee Shen Wang was part of the succession planning for the Executive Director of the Company.

The Board is aware of the guidance to utilise independent sources for future appointment of Non-Executive Director, and to disclose how a Board member is sourced in the Annual Report.

4.8 NC

The NC is responsible for identifying and recommending suitable candidates for Board membership and also for assessing the performance of the Directors on an ongoing basis. The Board would have the ultimate responsibility and final decision on the appointment. This process shall ensure that the Board membership accurately reflects the long-term strategic direction and needs of the Company and determine skills matrix to support strategic direction and needs of the Company.

Management shall engage broadly to develop a pool of interested potential candidates meeting the skills, expertise, personal qualities and diversity requirements for both the Board and the Committee appointments.

The NC evaluates and matches the criteria of the candidate, and will consider diversity, including gender, where appropriate, and recommends to the Board for appointment.

Consideration would be given to those individuals possessing the identified skill, talent and experience.

The NC would contact those persons identified to determine their interest in serving the Company. This communication will ensure that prospective Board members have clarity regarding the nominating process as well as Director/ Board profiles, roles and responsibilities, expectations of time commitments and other information as required.

For any requisition of nomination by the shareholders, the NC would also perform the same review process. However, if the requisition is by way of Sections 311 to 313 of the Companies Act 2016, the NC would still carry out its duties if permitted by the requisitionist.

The NC comprises exclusively of Independent Non-Executive Directors, as follows:-

- Datuk Tay Puay Chuan (Independent Non-Executive Director) – Chairman
- Dr Tan Chee Huat (Independent Non-Executive Director) – Member
- YBhg Datuk Dr Haris Bin Haji Salleh (Senior Independent Non-Executive Director) – Member
- Leou Thiam Lai (Independent Non-Executive Director) – Member

The Terms of Reference of the NC is available on the Company's website.

A summary of key activities undertaken by the NC in discharging its duties during the financial year under review is set out below:

- Reviewed and assessed annual assessment of the performance and effectiveness of the Board as a whole, the committee of the Board, contribution of each individual director;
- Reviewed and assessed the size, composition and the required mix of skills of the Board and Board Committees;
- Reviewed and assessed the independence of the Independent Non-Executive Directors;
- Reviewed and recommended to the Board, the re-election and re-appointment of the Directors who will be retiring at the forthcoming AGM of the Company;
- Reviewed and assessed the term of office and performance of the AC;
- Reviewed and recommended the types of trainings suitable for the Board;
- Reviewed and assessed the level of financial literacy of the AC members; and
- Reviewed the revised Terms of Reference of the NC to ensure its relevance to the NC and recommended to the Board for approval.

5. Overall Board Effectiveness

5.1 Annual Evaluation

The Board undertakes annual evaluation to determine the effectiveness of the Board. The Board evaluation comprises Board Assessment, Board Committees Assessment, Individual Assessment and Assessment of Independence of Independent Directors.

The assessment of the Board is based on specific criteria, covering areas such as the Board structure, Board operations, roles and responsibilities of the Board, the Board Committee and the Chairman's role and responsibilities.

The results of the assessment would form the basis of the NC's recommendation to the Board for the re-election of Directors at the next AGM.

Based on the annual assessment conducted, the NC was satisfied with the existing Board composition and concluded that each Directors has the requisite competence to serve on the Board and has sufficiently demonstrated their commitment to the Company in terms of time and participation during the year under review, and recommended to the Board the re-election of retiring Directors at the Company's forthcoming AGM. All assessments and evaluations carried by the NC in discharge of its functions were properly documented.

The attendance record of the Directors at Board and Board Committee meetings for the financial year ended 30 June 2019 is set out as follows:-

Meeting Attendance	Board	AC	NC	RC	AGM
Tan Sri Abdul Rahim Bin Mohd Noor	4/5	-	-	-	1/1
Koh Kun Chuan	5/5	-	-	-	1/1
Low Peng Sian @ Chua Peng Sian	5/5	-	-	1/1	1/1
YBhg Datuk Dr Haris Bin Haji Salleh	5/5	5/5	1/1	1/1	1/1
Dr Tan Chee Huat	5/5	5/5	1/1	1/1	1/1
Datuk Tay Puay Chuan	5/5	5/5	1/1	-	1/1
Leou Thiam Lai	5/5	5/5	1/1	1/1	1/1
Loo Eng Hua	5/5	-	-	-	1/1
*Lee Shen Wang	N/A	N/A	N/A	N/A	N/A

* Mr Lee Shen Wang was appointed as Company Director on 21 August 2019, subsequent to the financial year ended 30 June 2019.

To ensure that the Directors have the time to focus and fulfil their roles and responsibilities effectively, the Directors must not hold more than five (5) directorships in public listed companies and shall notify the Chairman before accepting any new directorships.

5.2 Directors' Training

The Board fully supports the need for its members to continuously enhance their skills and knowledge to keep abreast with the developments in the economy, industry, technology and updates on regulations, amongst others to effectively carry out their duties and responsibilities as directors and to comply with continuous training as required by the MMLR.

There were also briefings by the External Auditors and the Internal Auditors and the Company Secretary on the relevant updates on statutory and regulatory requirements from time to time during the Board meetings.

During the financial year ended 30 June 2019, all the Directors have attended trainings, seminars, conferences and exhibitions which they considered vital in keeping abreast with the changes in laws and regulation, business environment, and corporate government development, as detailed hereunder: -

Name of Director	Course Attended	Date
Tan Sri Abdul Rahim Bin Mohd Noor	Updates on Bursa Listing Requirements	29.05.2019
YBhg Datuk Dr Haris Bin Haji Salleh	MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers	10.07.2019
Koh Kun Chuan	MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers	10.07.2019
Low Peng Sian @ Chua Peng Sian	MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers	10.07.2019

Name of Director	Course Attended	Date
Dr Tan Chee Huat	National Tax Conference 2019	05 - 06.08.2019
	MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers	10.07.2019
	Audit Quality Enhancement Programme for SMPs 2019	18 - 19.03.2019
	Latest Developments on MFRS 15 & MFRS 16	14.12.2018
	Seminar Percukaian Kebangsaan 2018	03.12.2018
Datuk Tay Puay Chuan	MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers	10.07.2019
Leou Thiam Lai	2019 Budget Seminar	04.12.2018
	Seminar Percukaian Kebangsaan 2018	13.11.2018
Loo Eng Hua	MFRS 9, Financial Instruments – A Comprehensive Review and Analysis	18.09.2019
	MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers	10.07.2019
	2019 Budget Seminar	21.11.2018
	Biological Assets : Points of Interest (MFRS 141 and MPERS S34)	03.10.2018
*Lee Shen Wang	N/A	N/A

* Mr Lee Shen Wang was appointed as Company Director on 21 August 2019, subsequent to the financial year ended 30 June 2019.

The Company will continue to identify suitable training for the Directors to equip and update themselves with the necessary knowledge in discharging their duties and responsibilities as Directors.

The Directors are encouraged to attend briefing, conferences, forums, trade fairs (locally and internationally), seminars and training to keep abreast with the latest developments in the industry and to enhance their skills and knowledge.

PART III - REMUNERATION

6. Level and Composition of Remuneration

6.1 Remuneration Policy

The RC and the Board ensure that the Company's remuneration policy remains supportive of the Company's corporate objectives and is aligned with the interest of shareholders, and further that the remuneration packages of Directors and key Senior Management Officers are sufficiently attractive to attract and to retain persons of high calibre.

The RC is chaired by Mr Low Peng Sian @ Chua Peng Sian, the MD of the Company and comprises a majority of Independent Non-Executive Directors. The RC is guided by its terms of reference, which is available on the Company's website.

7. Remuneration of Directors and Senior Management

7.1 Detailed Disclosure of Directors' Remuneration

The Company noted the needs for transparency on the detailed disclosure on named basis for the remuneration of individual Directors. The remuneration breakdown of individual Directors includes fees, salary, bonus, benefits in-kind and other emoluments.

The RC reviews annually the Directors' Fees and the Directors' Remuneration (including Non-Executive Directors) to commensurate with the level of responsibility of its directors and senior management. There should be appropriate incentives to attract talent as well as nurture and retain high calibre directors and senior management, whilst taking into account the interests of other stakeholders, including shareholders and employees. In addition, the remuneration policy and procedures should also be aligned with the business strategy and long-term objectives of the Company.

The RC would recommend the Directors' Remuneration (including Non-Executive Directors) for Board's approval while the Directors' remuneration payable to the Non-Executive Directors would be tabled at the AGM for the approval of shareholders in line with the provisions of its Constitution and the Companies Act 2016.

The Remuneration of the Executive Directors should be set at a competitive level to recruit and retain high quality executive directors and senior management. Individual pay levels should reflect the performance of the Company and the individual's skills and experience as well as responsibility undertaken. It is to ensure that the linkage between pay and performance is robust.

As for the Non-Executive Directors, the remuneration should take into account the fee levels and trends for the similar positions in the market and the time commitment required from the director. Such packages should take into consideration any additional responsibilities undertaken such as a director acting as chairman of the board, chairman of a board committee or as the senior independent director.

The Directors plays no part in determining his own remuneration and shall abstain from discussion on their own remuneration.

The remuneration package of the Executive Directors consists of monthly salary, bonus and benefits-in-kind such as company car and the benefit of Directors and Officers Liability Insurance in respect of any liabilities arising from acts committed in their capacity as Directors and Officers of the Company. The Directors and principal officers are required to contribute jointly towards the premium of the said policy.

Details of the Directors' Remuneration (including benefits-in-kind) of each Director during the financial year ended 30 June 2019 are as follows:

i. Breakdown of Directors' Remuneration (Company)

	Director Fees (RM)	Salary and Bonus (RM)	EPF, SOCSO and EIS Contribution (RM)	Benefit -In-Kind* (RM)	Other Emoluments^ (RM)	Total (RM)
Executive Directors						
Koh Kun Chuan	7,200	-	-	-	2,299	9,499
Low Peng Sian @ Chua Peng Sian	14,400	-	-	-	2,299	16,699
Loo Eng Hua	-	300,000	36,924	-	2,299	339,223
TOTAL	21,600	300,000	36,924	-	6,897	365,421
Non-Executive Directors						
Tan Sri Abdul Rahim Bin Mohd Noor	92,800	-	-	-	2,298	95,098
YBhg Datuk Dr Haris Bin Haji Salleh	66,100	-	-	-	2,298	68,398
Dr Tan Chee Huat	74,300	-	-	-	2,298	76,598
Datuk Tay Puay Chuan	58,900	-	-	-	2,298	61,198
Leou Thiam Lai	66,100	-	-	-	2,298	68,398
TOTAL	358,200	-	-	-	11,490	369,690

ii. Breakdown of Directors' Remuneration (Group)

	Director Fees (RM)	Salary and Bonus (RM)	EPF, SOCSO and EIS Contribution (RM)	Benefit -In-Kind* (RM)	Other Emoluments^ (RM)	Total (RM)
Executive Directors						
Koh Kun Chuan	7,200	640,000	78,648	13,325	2,299	741,472
Low Peng Sian @ Chua Peng Sian	14,400	960,000	117,048	43,500	2,299	1,137,247
Loo Eng Hua	-	300,000	36,924	9,900	2,299	349,123
TOTAL	21,600	1,900,000	232,620	66,725	6,897	2,227,842
Non-Executive Directors						
Tan Sri Abdul Rahim Bin Mohd Noor	92,800	-	-	-	2,298	95,098
YBhg Datuk Dr Haris Bin Haji Salleh	66,100	-	-	-	2,298	68,398
Dr Tan Chee Huat	74,300	-	-	-	2,298	76,598
Datuk Tay Puay Chuan	58,900	-	-	-	2,298	61,198
Leou Thiam Lai	66,100	-	-	-	2,298	68,398
TOTAL	358,200	-	-	-	11,490	369,690

* Company's Car and Petrol Benefits.

^ Insurance Premium paid by the Company.

iii. **Aggregate Directors' Remuneration**

Categories of Remuneration	Group Executive Directors (RM)	Group Non-Executive Directors (RM)	Company Executive Directors (RM)	Company Non-Executive Directors (RM)
Director Fees	21,600	358,200	21,600	358,200
Salary and Bonus	1,900,000	-	300,000	-
EPF, SOCSO and EIS Contribution	232,620	-	36,924	-
Benefits-in-kind *	66,725	-	-	-
Other emoluments ^	6,897	11,490	6,897	11,490

* Company's Car and Petrol Benefits.
^ Insurance Premium paid by the Company.

iv. **Analysis of Directors' Remuneration**

Total remuneration of Directors in respect of the financial year ended 30 June 2019, in bands of RM50,000 is tabulated below:

Range of Remuneration RM	Group Executive Directors	Group Non-Executive Directors	Company Executive Directors	Company Non-Executive Directors
Below RM50,000	-	-	2	-
50,001 – 100,000	-	5	-	5
100,001– 150,000	-	-	-	-
150,001 – 200,000	-	-	-	-
200,001 – 250,000	-	-	-	-
250,001 – 300,000	-	-	-	-
300,001 – 350,000	1	-	1	-
350,001 – 400,000	-	-	-	-
400,001 – 450,000	-	-	-	-
450,001 – 500,000	-	-	-	-
500,001 – 550,000	-	-	-	-
550,001 – 600,000	-	-	-	-
600,001 – 650,000	-	-	-	-
650,001 – 700,000	-	-	-	-
700,001 – 750,000	1	-	-	-
750,001 – 800,000	-	-	-	-
800,001 and Above	1	-	-	-

The above Directors' Remuneration disclosed was not applicable to Mr Lee Shen Wang, who was appointed as a Company Director on 21 August 2019, subsequent to the financial year ended 30 June 2019.

7.2 Remuneration of Top Three (3) Senior Management

The Company notes the need for transparency in the disclosure of its key senior management remuneration, the Company is of the opinion that the disclosure of remuneration details may be detrimental to the Company's management of its human resources due to the competitive environment for resources within the industries the Company and its subsidiaries operate in.

While the Company has set policies and procedures in setting the remuneration of key personnel, such disclosure may also be misconstrued so as to hinder its recruitment and retention of personnel.

The Company is of the view that the interest of the shareholders would not be prejudiced as a result of such nondisclosure of the Company's top three (3) senior management personnel who are not Directors on named basis.

The number of top three (3) senior management whose remuneration (comprising salary, bonus and other emoluments) for the financial year ended 30 June 2019 within the successive bands of RM50,000 is as follows:

Remuneration Band	Number of top three (3) Senior Management
Below RM50,000	-
RM50,001 to RM100,000	1
RM100,001 to RM150,000	-
RM150,001 to RM200,000	1
RM200,001 to RM250,000	-
RM250,001 to RM300,000	1
RM300,001 to RM350,000	-

PRINCIPLE B : EFFECTIVE AUDIT AND RISK MANAGEMENT

PART I – AC

8. AC

The AC is relied upon by the Board to, amongst others, provide advice in the areas of financial reporting, external audit, internal control environment and internal audit process, review of related party transactions as well as conflict of interest situation. The AC also undertakes to provide oversight on the risk management framework of the Group.

The AC is chaired by an Independent Non-Executive Director who is distinct from the Chairman of the Board and all members of the AC are financially literate. The composition of the AC, including its roles and responsibilities as well as a summary of its activities carried out in the financial year ended 30 June 2019, are set out in the AC Report on pages 22 to 26 of this Annual Report.

8.1 Financial Reporting

The Board aims to present a balanced and meaningful assessment of the Group's position and prospects, primarily through the annual financial statements and the quarterly announcement of results.

Before the financial statements are drawn up, the Directors take the necessary steps to ensure that the Group has used all the applicable accounting policies and supported by reasonable and prudent judgements and estimates. All accounting standards which the Board considers to be applicable, have been followed, subject to any explanations and material departures disclosed in the notes to the financial statements.

8.2 Financial Literacy of the AC

The AC complies with the recommendation of the MCCG requiring all members to be independent and at least one member fulfils qualifications prescribed by the MMLR. There is a strong element of independence to fulfil their role objectively and provide a critical and sounding view in ensuring the integrity of financial controls and integrated reporting, and identifying and managing key risk. All members of the AC are financially literate.

8.3 Transparent and professional relationship with the external auditors

The AC has adopted a policy that requires a former key audit partner to observe a cooling-off period of at least two (2) years before being appointed as a member of the AC and the said policy has been incorporated in the terms of reference of the AC, a copy which is available on the Company's website. Thus far, no former key audit partner has been appointed as a Director of the Company.

The AC is empowered by the Board to review any matters concerning the appointment and re-appointment, resignations or dismissals of External Auditors and review and evaluate factors relating to the independence of the External Auditors. The terms of engagement for services provided by the External Auditors are reviewed by the AC prior to submission to the Board for approval. Feedback based on the assessment areas is obtained from the AC, the Executive Directors, the Internal Auditor and senior management, where applicable.

The AC undertakes an annual assessment of the suitability and independence of the External Auditors as well as the performance of the External Auditors, including the review of calibre of the audit firm, quality of processes, audit team, independence and objectivity, audit scope and planning, audit fees and audit communications.

On the other hand, the AC has also sought written assurance from the External Auditors, confirming that they are, and have been, independent throughout the conduct of the audit engagement with the Company in accordance with the independence criteria set out by the Malaysian Institute of Accountants ("MIA"). The External Auditors provided such declaration in their annual audit plan presented to the AC prior to the commencement of audit for a particular financial year.

In this regard, the AC had on 9 October 2019, assessed the independence of Messrs BDO PLT as the External Auditors of the Company as well as reviewed the level of non-audit services rendered by Messrs BDO PLT to the Company for the financial year ended 30 June 2019.

The AC was satisfied with Messrs BDO PLT's technical competency and audit independence and took note that the quantum of non-audit fee charged thereto was not material as compared to the total audit fees paid to Messrs BDO PLT. Details of statutory audit, audit-related and non-audit fees paid/payable in the financial year ended 30 June 2019 to the External Auditors are set out in the Additional Information of this Annual Report.

The AC, having satisfied itself with the performance and fulfilment of criteria as set out in the Non-Audit Services Policy as well as received the assurance from Messrs BDO PLT as stated above, recommended the reappointment of Messrs BDO PLT as the External Auditors to the Board, upon which the shareholders' approval will be sought at the 19th AGM.

PART II – RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

9. Risk Management and Internal Control Framework

The Board oversees, reviews and monitors the operation, adequacy and effectiveness of the Group's system of internal controls. The Board defines the level of risk appetite, approving and overseeing the operation of the Group's Risk Management Framework, assessing its effectiveness and reviewing any major/ significant risk facing the Group.

The AC oversees the risk management framework of the Group, reviews the risk assessment and management policies formulated by Management regularly together with the Internal Auditors and makes relevant recommendations to Management to update the Group Risk Profile. The AC also discusses with the Board on areas of high risk faced by the Group and the adequacy of compliance and control throughout the organisation, and makes relevant recommendations to the Board to manage residual risks.

The Board has been integrating the risk issues into their decision making process whilst maintaining the flexibility to lead the business of the Group through the ever-changing internal and external environments.

The Company continues to maintain and review its internal control procedures to ensure the protection of its assets and its shareholders' investment.

Details of the main features of the Company's risk management and internal controls framework are further elaborated in the AC Report and the Statement on Internal Control and Risk Management on pages 43 to 45 of this Annual Report.

10. Governance, Risk Management and Internal Control Framework

The Board has outsourced the Internal Audit ("IA") function to an independent assurance provider, namely Messrs RCA Corporate Services Sdn. Bhd. to provide an independent appraisal over the system of internal control of the Group to the AC.

The responsibilities of the Internal Auditors include providing independent and objective reports on the state of internal controls and the significant operating units in the Group to the AC, with recommendations for improvement to the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the systems.

The engaging partner and team are free from any relationships or conflict of interests with the Company, to ensure the Internal Auditors' objectivity and independence are not impaired.

During the financial year under review, the Internal Auditors have conducted review on the Group in accordance to the Internal Audit Plans, which have been approved by the AC and Board.

The Internal Auditors will perform periodic testing of the internal control systems to ensure that the system is robust.

The Statement on Risk Management and Internal Control as included on pages 43 to 45 of this Annual Report provides the overview of the internal control framework adopted by the Company during the financial year ended 30 June 2019.

PRINCIPLE C : INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

PART I – COMMUNICATION WITH STAKEHOLDERS

11. Continuous Communication Between Company and Stakeholders

The Group recognises the importance of prompt and timely dissemination of information to the shareholders and the investors, in order for these stakeholders to be able to make informed investment decisions.

The Board is committed to ensuring that the shareholders and other stakeholders are well informed of the major developments of the Company and the information is communicated to them through the publication of the Annual Report, various timely announcements, periodic disclosures made during the financial year and the release of financial results on the quarterly basis to Bursa Securities. The Company will ensure that all quarterly financial results are announced to Bursa Securities no later than two (2) months after the end of each quarter of a financial year and that the Annual Report together with the Audited Financial Statements are released within four (4) months after the end of each financial year.

Towards this, the Company's website at http://www.sernkou.com incorporates a corporate section which provides all relevant information on the Company and is accessible by the public. This corporate section enhances the investor relations function by including all announcements made, annual reports as well as the documents such as Board Charter, Term of Reference of respective Board Committees, Whistleblowing Policy, Corporate Disclosure Policy and Directors' Code of Conduct can be obtained from the Company's website.

In addition, the Directors engage with shareholders at least once a year during the AGM to understand their needs and seek their feedback.

PART II – CONDUCT OF GENERAL MEETINGS

12. Shareholder Participation at General Meetings

The AGM of the Company provides the principal forum of dialogue and interaction between the Board and the shareholders. The shareholders are given the opportunity to raise questions or to seek for clarifications of pertinent and relevant information of the Company. During the meeting, the Chairman, the Board members and the External Auditors are available to respond to the shareholders' queries.

The notices of the AGM and the Annual Report are sent out to shareholders at least twenty eight (28) days prior to the meeting so that shareholders are given sufficient time to consider the resolutions that will be discussed at the AGM.

All the Directors shall endeavour to present in person to engage directly with, and be accountable to the shareholders for their stewardship of the Company at the AGM. The Directors and the External Auditors will be in attendance at the AGM to respond to the shareholders' queries.

In line with the MMLR, the Company will implement poll voting for all the proposed resolutions set out in the notice of AGM. Each item of special business included in the notice of AGM will be accompanied by an explanation of the said proposed resolutions. All shareholders or proxies will be briefed on the voting procedures prior to the poll voting by the Share Registrar. The Company will appoint independent scrutineers to validate the votes cast at the AGM.

The outcome of resolutions tabled and passed at the AGM are released to Bursa Securities on the same meeting day.

This CG Overview Statement was approved by the Board on 18 October 2019.

Statement On Risk Management And Internal Control

INTRODUCTION

The Board is pleased to present its Statement on Risk Management and Internal Control which outlines the nature and scope of the risk management and internal control of the Group for the financial year ended 30 June 2019. This Statement has been prepared in accordance with Paragraph 15.26(b) of Bursa Malaysia Securities Berhad's Main Market Listing Requirements and guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("the Guidelines").

BOARD RESPONSIBILITY

The Board recognises the importance of sound framework for risk management and internal control as a platform to good corporate governance. The Board acknowledges its responsibility and re-affirms its commitment in maintaining sound systems of risk management and internal control to safeguard shareholders' investments and the Group's assets as well as for reviewing its adequacy and effectiveness of these systems.

The Board continuously reviews the adequacy and integrity of the Group's risk management and internal control system to ensure that risks are managed appropriately and aligned to the Group's business objectives.

The Board has received assurance from the Managing Director and the Chief Financial Officer that the Group's risk management and internal control systems are in place for the financial year ended 30 June 2019 and are operating adequately and effectively, in all materials aspects.

In view of the limitations inherent in any system of risk management and internal control, such systems put into effect by Management can only manage and reduce, rather than eliminate the risks that may impede the achievement of the Group's business objectives. Therefore, the risk management and internal control systems can only provide reasonable and not absolute assurance against errors, material misstatement, operational failure, fraud or loss.

RISK MANAGEMENT

Risk Management is regarded by the Board to be an integral part of business operations. Key Management staff and Heads of Department are delegated with the responsibility of identifying and managing risks related to their functions/departments. At the periodic management meetings, such risks identified and related internal controls are communicated to Senior Management. In addition, significant risks identified are brought to the attention of the Board at their scheduled meetings.

The Risk Management Committee, comprising key management staff, meets periodically to discuss the risks faced by the Group and ensure that existing mitigation actions are adequate. Risks identified were prioritised in terms of likelihood of occurrence and the impact of such on the Group upon crystallisation.

The Group has put in place a risk management framework and complemented by the above mentioned risk management practices as an on-going process to assess, identify, evaluate and manage the various types of risks, which affect the Group's businesses and its achievement of its business objectives. This would help achieve building a risk awareness culture and risk ownership for a more effective approach to risk management.

INTERNAL AUDIT FUNCTION

The responsibility for reviewing the adequacy and integrity of the internal control system has been delegated by the Board to the Audit Committee. In turn, the Audit Committee assesses the adequacy and integrity of the internal control system and its compliance with the Group's policies and procedures through independent reviews performed by the Internal Auditors. In this respect, the Board through the Audit Committee receives and reviews reports on internal control from its outsourced internal audit function.

The Board has outsourced the internal audit ("IA") function to an independent assurance provider, namely Messrs RCA Corporate Services Sdn. Bhd. to provide an independent appraisal over the system of internal control of the Group to the Audit Committee.

The responsibilities of the Internal Auditors include periodically testing of the internal control systems to ensure that the system is robust and providing independent and objective reports on the state of internal controls and the significant operating units in the Group to the Audit Committee, with recommendations for improvement to the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the systems. The Internal Auditors adopt a risk based approach based on COSO model of evaluation.

During the financial year ended 30 June 2019, IA was undertaken and the results on the audits were presented to the Audit Committee. The scope of work of the outsourced IA function was determined by the Audit Committee after careful consideration and discussion with the Board.

The cost incurred in outsourcing the performance review for the financial year ended 30 June 2019 was at RM36,000.

KEY ELEMENTS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The other key elements of the Group's internal control system include:-

- The Group maintains clearly defined and structured lines of reporting and responsibilities including proper segregation of duties, appropriate authority limits, adequate review and approval procedures;
- Formal Standard Operating Policies and Procedures are in place and they are regularly reviewed and updated to ensure that it continues to support the Group's business activities as the Group continues to grow;

  Certain subsidiaries within the Group adhered to and applied such ISO Quality Policies and Procedures. With such certification, audits are conducted by external parties periodically to ensure compliance with the requirements of the certification.
- Financial results are reviewed by the Audit Committee and the Board on a quarterly basis. An annual budget is prepared by Management to facilitate the monitoring of Group financial performance and the review of its actual performance against budget;
- Regular dialogues on operational matters with department heads are conducted by the Executive Directors;
- Scheduled management meetings to discuss the Group's operations and performance are held on a periodical basis;
- Quarterly reviews on the performance of the Group by the Board;
- Active participation of executive members of the Board in the day-to-day running of the operations; and
- Quarterly discussion between the Audit Committee and Management.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in this Annual Report for the financial year ended 30 June 2019. Their review was performed in accordance with the Audit and Assurance Practice Guide ("AAPG") 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants.

AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control system of the Group. Based on the procedures performed, nothing had come to their attention that caused them to believe that the Statement on Risk Management and Internal Control set out above was not prepared, in all material respect, in accordance with the disclosure required by paragraphs 41 and 42 of the Guidelines, nor was it factually inaccurate.

CONCLUSION

The Board is of the view that the Group's risk management and internal control systems are satisfactory and has no significant internal control failures nor have any of the reported weaknesses that has resulted in material losses or contingencies during the financial year under review. However, the Board is also cognizant of the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Group will continue to take measures to strengthen the risk management and internal control system with a view to further enhance their effectiveness and to ensure new and additional risk arising from changes in the business and operating environment are managed within tolerable limits and timely dealt with.

This Statement on Risk Management and Internal Control is made by the Board in accordance to its resolution dated 18 October 2019.

Statement Of Directors' Responsibilities

In Respect Of The Preparation Of The Financial Statements

The Directors of Sern Kou Resources Berhad ("the Company") are required to prepare financial statements for each financial year which have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the provisions of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements of the Group and of the Company for the financial year ended 30 June 2019, the Directors of the Company have:-

- adopted suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- ensured applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors are responsible to ensure that the Group and the Company maintain proper accounting records that disclose with reasonable accuracy the financial position of the Group and of the Company, which enable them to ensure that the financial statements comply with the Companies Act 2016.

The Directors are also responsible for taking such steps which are reasonably open to them to safeguard the assets of the Group and of the Company and to prevent and detect fraud and other irregularities.

Additional Information

MATERIAL CONTRACTS

There were no material contracts entered into by the Company involving the Company Directors', Chief Executive who is not a director and/or major shareholders' interests, either still subsisting at the end of the financial year, or which were entered into since the end of the previous financial year.

CORPORATE PROPOSAL AND UTILISATION OF PROCEEDS

The Company did not carry out any corporate proposal nor utilise proceeds derived from the corporate proposal during the financial year ended 30 June 2019.

RECURRENT RELATED PARTY TRANSACTION

During the financial year ended 30 June 2019, the Company did not enter into any recurrent related party transactions.

SHARE ISSUANCE SCHEME

The Company did not implement any share issuance scheme during the financial year ended 30 June 2019.

AUDIT AND NON-AUDIT FEES

The audit and non-audit fees paid or payable to the external auditors and its affiliated company for the financial year ended 30 June 2019 are as follow:-

Details of fees	Group (RM)	Company (RM)
Statutory Audit Fees	138,000	32,000
Non-Audit Fee	5,000	5,000
	143,000	37,000

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2019.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of investment holding and provision of management services. The principal activities and the details of the subsidiaries are set out in Note 10 to the financial statements. There have been no significant changes in the nature of these activities for the Group and the Company during the financial year.

RESULTS

	Group RM	Company RM
Profit/(Loss) for the financial year	11,881,391	(7,372)
Attributable to:		
Owners of the parent	11,562,448	(7,372)
Non-controlling interests	318,943	-
	11,881,391	(7,372)

DIVIDEND

No dividend has been paid, declared or proposed by the Company since the end of the previous financial year. The Directors do not recommend the payment of any dividend in respect of the current financial year ended 30 June 2019.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

ISSUE OF SHARES AND DEBENTURES

There were no new issues of shares or debentures during the financial year.

WARRANTS 2018/2023

On 28 March 2018, the Company issued 120,000,000 free warrants on the basis of one (1) Warrant for every one (1) existing ordinary share.

The warrants were constituted by the Deed Poll dated 5 March 2018. No warrants were exercised during the financial year and the total number of warrants that remain unexercised was 120,000,000.

The salient terms of the Warrants are disclosed in Note 28 to the financial statements.

DIRECTORS

The Directors who have held office during the financial year and up to the date of this report are as follows:

Sern Kou Resources Berhad

Tan Sri Abdul Rahim Bin Mohd Noor
YBhg Datuk Dr Haris Bin Haji Salleh
Datuk Tay Puay Chuan
Koh Kun Chuan
Dr Tan Chee Huat
Low Peng Sian @ Chua Peng Sian
Loo Eng Hua
Leou Thiam Lai
Lee Shen Wang (appointed on 21 August 2019)

Subsidiaries of Sern Kou Resources Berhad

Koh Kun Chuan
Low Peng Sian @ Chua Peng Sian
Tey Man Er
Lee Shen Wang (appointed on 21 August 2019)

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in the ordinary shares of the Company and of its related corporations during the financial year ended 30 June 2019 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 in Malaysia were as follows:

	Number of ordinary shares			
	Balance as at 1.7.2018	**Bought**	**Sold**	**Balance as at 30.6.2019**
Shares in the Company				
Direct interests:				
Koh Kun Chuan	12,200,430	-	-	12,200,430
Low Peng Sian @ Chua Peng Sian	22,586,800	8,353,400	-	30,940,200
Loo Eng Hua	200,000	-	-	200,000
Indirect interests:				
Low Peng Sian @ Chua Peng Sian	48,000,000	-	-	48,000,000

DIRECTORS' INTERESTS (CONTINUED)

	Number of warrants			
	Balance as at 1.7.2018	Bought	Exercised	Balance as at 30.6.2019
Warrants in the Company				
Direct interests:				
Koh Kun Chuan	6,100,215	-	-	6,100,215
Low Peng Sian @ Chua Peng Sian	11,293,400	8,607,500	-	19,900,900
Loo Eng Hua	100,000	-	-	100,000
Indirect interests:				
Low Peng Sian @ Chua Peng Sian	24,000,000	-	-	24,000,000

By virtue of Section 8(4) of the Companies Act 2016 in Malaysia, Low Peng Sian @ Chua Peng Sian is also deemed to be interested in the shares of all the subsidiaries to the extent that the Company has an interest.

None of the other Directors holding office at the end of the financial year held any interest in ordinary shares and options over ordinary shares in the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors have received or become entitled to receive any benefit (other than those benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than deemed benefits arising from related party transactions as disclosed in Note 29 to the financial statements.

There were no arrangements during and at the end of the financial year to which the Company is a party, which had the object of enabling the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REMUNERATION

The details of Directors' remuneration are disclosed in Note 27(a) to the financial statements.

INDEMNITY AND INSURANCE FOR DIRECTORS, OFFICERS OR AUDITORS

The Group and the Company effected Directors' liability insurance during the financial year to protect the Directors of the Group and of the Company against potential costs and liabilities arising from claims brought against the Directors.

The amount of insurance premium paid by the Company during the financial year amounted to RM18,387.

There were no indemnity given to or insurance effected for the auditors of the Group and of the Company during the financial year.

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

(a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that there are no known bad debts to be written off and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

(b) In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

(c) The Directors are not aware of any circumstances:

(i) which would necessitate the writing off of bad debts or render the amount of provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent;

(ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and

(iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) In the opinion of the Directors:

(i) there has not arisen any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and

(ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

(III) AS AT THE DATE OF THIS REPORT

(e) There are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.

(f) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.

(g) The Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

AUDITORS

The auditors, BDO PLT (LLP0018825-LCA & AF 0206), have expressed their willingness to continue in office.

The details of auditors' remuneration of the Company and its subsidiaries for the financial year ended 30 June 2019 are disclosed in Note 24 to the financial statements.

BDO PLT (LLP0018825-LCA & AF 0206) was registered on 2 January 2019 and with effect from that date, BDO (AF 0206), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board in accordance with a resolution of the Directors.

(Signed)

Low Peng Sian @ Chua Peng Sian
Director

(Signed)

Koh Kun Chuan
Director

Johor Bahru
18 October 2019

Statement By Directors

In the opinion of the Directors, the financial statements set out on pages 59 to 124 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the provisions of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2019 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board,

(Signed)

Low Peng Sian @ Chua Peng Sian
Director

(Signed)

Koh Kun Chuan
Director

Johor Bahru
18 October 2019

STATUTORY DECLARATION

I, Low Peng Sian @ Chua Peng Sian, being the Director primarily responsible for the financial management of Sern Kou Resources Berhad, do solemnly and sincerely declare that the financial statements set out on pages 59 to 124 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly)
declared by the abovenamed at)
Johor Bahru, Johor this)
18 October 2019)

(Signed)

Low Peng Sian @ Chua Peng Sian

Before me:

Serena Kaur (No. J252)
Commissioner for Oaths

Independent Auditors' Report

To The Members Of Sern Kou Resources Berhad

(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Sern Kou Resources Berhad, which comprise the statements of financial position as at 30 June 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 59 to 124.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2019, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

BASIS FOR OPINION

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")*, and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters of the Group

Recoverability of trade receivables

As at 30 June 2019, trade receivables of the Group amounted to RM68,935,892. The details of trade receivables and their credit risks have been disclosed in Note 12 and Note 32 to the financial statements.

We determined this to be a key audit matter because it requires management to exercise significant judgements in determining the probability of default by trade receivables and appropriate forward looking information.

KEY AUDIT MATTERS (CONTINUED)

Audit response

Our audit procedures included the following:

a) recomputed the probability of default using historical data and forward looking information adjustment applied by the Group;

b) recomputed the correlation coefficient between forward looking factors and historical credit losses to determine the appropriateness of the forward-looking information of the Group; and

c) inquiries of management to assess the rationale underlying the relationship between the forward-looking information and expected credit losses.

Key Audit Matters of the Company

We have determined that there are no key audit matters to communicate in our report in respect of the audit of the financial statements of the Company.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

BDO PLT
LLP0018825-LCA & AF 0206
Chartered Accountants

Sia Yeak Hong
03413/02/2021 J
Chartered Accountant

Johor Bahru
18 October 2019

Statements Of Financial Position

As At 30 June 2019

	Note	Group 2019 RM	Group 2018 RM	Company 2019 RM	Company 2018 RM
ASSETS					
Non-current assets					
Property, plant and equipment	7	61,565,857	59,964,956	-	-
Investment property	8	2,335,365	2,402,197	-	-
Goodwill on consolidation	9	-	-	-	-
Investments in subsidiaries	10	-	-	62,937,457	62,937,457
		63,901,222	62,367,153	62,937,457	62,937,457
Current assets					
Inventories	11	23,726,334	17,150,909	-	-
Trade and other receivables	12	88,865,945	55,805,844	45,681	36,719
Current tax assets		930,788	262,868	-	69,085
Cash and bank balances	14	11,919,327	16,361,881	144,237	258,166
		125,442,394	89,581,502	189,918	363,970
TOTAL ASSETS		189,343,616	151,948,655	63,127,375	63,301,427
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	15	60,000,000	60,000,000	60,000,000	60,000,000
Retained earnings		27,198,916	15,636,468	1,885,523	1,892,895
		87,198,916	75,636,468	61,885,523	61,892,895
Non-controlling interests	10(c)	1,096,647	776,479	-	-
TOTAL EQUITY		88,295,563	76,412,947	61,885,523	61,892,895
LIABILITIES					
Non-current liabilities					
Borrowings	16	18,391,244	19,903,429	-	-
Deferred tax liabilities	19	1,120,264	1,223,385	-	-
		19,511,508	21,126,814	-	-
Current liabilities					
Trade and other payables	20	25,170,351	13,501,167	1,225,404	1,408,532
Borrowings	16	54,485,653	39,287,594	-	-
Derivative financial liabilities	13	-	59,035	-	-
Current tax liabilities		1,880,541	1,561,098	16,448	-
		81,536,545	54,408,894	1,241,852	1,408,532
TOTAL LIABILITIES		101,048,053	75,535,708	1,241,852	1,408,532
TOTAL EQUITY AND LIABILITIES		189,343,616	151,948,655	63,127,375	63,301,427

The accompanying notes form an integral part of the financial statements.

Statements Of Profit Or Loss And Other Comprehensive Income

For The Financial Year Ended 30 June 2019

		Group		Company	
	Note	2019 RM	2018 RM	2019 RM	2018 RM
Revenue	23	237,136,842	172,995,568	1,032,000	960,000
Cost of sales		(205,386,327)	(147,640,154)	-	-
Gross profit		31,750,515	25,355,414	1,032,000	960,000
Other income		1,935,646	1,564,503	95	460,080
Selling and distribution expenses		(2,625,400)	(2,518,966)	-	-
Administrative expenses		(9,570,630)	(8,784,675)	(966,150)	(1,138,140)
Other expenses		(864,273)	(813,753)	-	-
Finance costs		(4,160,329)	(2,978,207)	-	-
Profit before taxation	24	16,465,529	11,824,316	65,945	281,940
Taxation	25	(4,584,138)	(2,704,996)	(73,317)	(51,377)
Profit/(Loss) for the financial year		11,881,391	9,119,320	(7,372)	230,563
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive income/(loss)		11,881,391	9,119,320	(7,372)	230,563
Profit/(Loss) for the financial year/ Total comprehensive income/(loss) attributable to:					
Owners of the parent		11,562,448	9,083,944	(7,372)	230,563
Non-controlling interests	10(c)	318,943	35,376	-	-
		11,881,391	9,119,320	(7,372)	230,563
Earnings per ordinary share attributable to owners of the parent (sen)					
- Basic	26	4.82	3.78		
- Diluted	26	4.23	3.50		

The accompanying notes form an integral part of the financial statements.

Statements Of Changes In Equity

For The Financial Year Ended 30 June 2019

Group	Note	Share capital RM	Distributable Retained earnings RM	Total RM	Non-controlling interests RM	Total RM
Balance as at 1 July 2017		60,000,000	6,552,524	66,552,524	740,613	67,293,137
Profit for the financial year		-	9,083,944	9,083,944	35,376	9,119,320
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income		-	9,083,944	9,083,944	35,376	9,119,320
Transaction with owners						
Acquisition of a subsidiary		-	-	-	490	490
Total transaction with owners		-	-	-	490	490
Balance as at 30 June 2018		60,000,000	15,636,468	75,636,468	776,479	76,412,947
Profit for the financial year		-	11,562,448	11,562,448	318,943	11,881,391
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income		-	11,562,448	11,562,448	318,943	11,881,391
Transaction with owners						
Disposal of a subsidiary	10(e)	-	-	-	1,225	1,225
Total transaction with owners		-	-	-	1,225	1,225
Balance as at 30 June 2019		60,000,000	27,198,916	87,198,916	1,096,647	88,295,563

Company	Share capital RM	Distributable Retained earnings RM	Total RM
Balance as at 1 July 2017	60,000,000	1,662,332	61,662,332
Profit for the financial year	-	230,563	230,563
Other comprehensive income, net of tax	-	-	-
Total comprehensive income	-	230,563	230,563
Balance as at 30 June 2018	60,000,000	1,892,895	61,892,895
Loss for the financial year	-	(7,372)	(7,372)
Other comprehensive income, net of tax	-	-	-
Total comprehensive loss	-	(7,372)	(7,372)
Balance as at 30 June 2019	60,000,000	1,885,523	61,885,523

The accompanying notes form an integral part of the financial statements.

Statements Of Cash Flows

For The Financial Year Ended 30 June 2019

	Note	Group 2019 RM	Group 2018 RM	Company 2019 RM	Company 2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		16,465,529	11,824,316	65,945	281,940
Adjustments for:					
Depreciation of:					
- investment property	8	66,832	66,832	-	-
- property, plant and equipment	7	3,308,504	2,854,839	-	-
Fair value adjustment on derivative financial instruments		(59,035)	59,035	-	-
Gain on disposals of:					
- a subsidiary	10(e)	(1,785)	-	-	-
- property, plant and equipment		(100,938)	(117,806)	-	-
Impairment loss on trade receivables	12(d)	229,000	-	-	-
Interest expenses		4,160,329	2,972,017	-	-
Interest income		(3,959)	(22,060)	(95)	-
Inventories written down	11	53,741	49,583	-	-
Property, plant and equipment written off	7	107,848	-	-	-
Unrealised loss/(gain) on foreign exchange		102,692	(65,559)	-	-
Operating profit before changes in working capital		24,328,758	17,621,197	65,850	281,940
Changes in working capital:					
Inventories		(6,629,166)	(9,172,255)	-	-
Trade and other receivables		(33,350,239)	(7,894,670)	(8,962)	375
Trade and other payables		11,671,330	(8,466,633)	16,872	8,865
Cash (used in)/generated from operations		(3,979,317)	(7,912,361)	73,760	291,180
Tax paid		(5,121,259)	(1,039,435)	(73,307)	(86,250)
Tax refunded		85,523	407,930	85,523	-
Net cash (used in)/from operating activities		(9,015,053)	(8,543,866)	85,976	204,930
CASH FLOWS FROM INVESTING ACTIVITIES					
Consideration from non-controlling interests on subscription of new shares of a subsidiary		-	490	-	-
Interest received		3,959	22,060	95	-
Net cash outflow from disposal of a subsidiary	10(e)	(490)	-	-	-
Net repayments to a subsidiary		-	-	(200,000)	(60,080)
Repayments to non-controlling interests		(11,826)	(238,174)	-	-
Purchase of property, plant and equipment	7(a)	(3,080,264)	(4,646,831)	-	-
Proceeds from disposal of property, plant and equipment		101,330	203,479	-	-
Net cash used in investing activities		(2,987,291)	(4,658,976)	(199,905)	(60,080)

Statements Of Cash Flows

For The Financial Year Ended 30 June 2019

	Note	Group 2019 RM	Group 2018 RM	Company 2019 RM	Company 2018 RM
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid		(4,160,329)	(2,972,017)	-	-
Drawdown of:					
- bankers' acceptances		86,987,478	65,769,850	-	-
- term loans		14,626,030	17,930,955	-	-
Net withdrawal/(placement) of deposits pledged		151,892	(206,892)	-	-
Repayments of:					
- bankers' acceptances		(75,640,015)	(62,848,000)	-	-
- hire purchase creditors		(2,514,055)	(1,908,224)	-	-
- term loans		(10,726,205)	(4,710,863)	-	-
Net cash from financing activities		8,724,796	11,054,809	-	-
Net (decrease)/increase in cash and cash equivalents		(3,277,548)	(2,148,033)	(113,929)	144,850
Effect of exchange rate changes on cash and cash equivalents		(28,374)	20,767	-	-
Cash and cash equivalents at beginning of financial year		8,747,716	10,874,982	258,166	113,316
Cash and cash equivalents at end of financial year	14(c)	5,441,794	8,747,716	144,237	258,166
RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES					
Borrowings at 1 July 2018/2017*		51,783,750	35,706,372	-	-
Cash flows		12,733,233	14,233,718	-	-
Non-cash flows:					
- Purchase of property, plant and equipment	7(a)	1,937,381	1,843,660	-	-
Borrowings at 30 June 2019/2018*		66,454,364	51,783,750	-	-

** Borrowings exclude bank overdrafts.*

The accompanying notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of the Bursa Malaysia Securities Berhad.

The registered office and principal place of business of the Company is located at Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1, Kawasan Perindustrian Bukit Bakri, Mukim Bakri, 84200 Muar, Johor Darul Takzim.

The consolidated financial statements for the financial year ended 30 June 2019 comprise the Company and its subsidiaries. These financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

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

2. PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of investment holding and provision of management services. The principal activities and the details of the subsidiaries are set out in Note 10 to the financial statements. There have been no significant changes in the nature of these activities for the Group and the Company during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Group and of the Company 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.

The accounting policies adopted are consistent with those of the previous financial year except for the effects of adoption of new MFRSs during the financial year. The new MFRSs and amendments to MFRSs adopted during the financial year are disclosed in Note 5 to the financial statements.

The Group and the Company applied MFRS 15 *Revenue from Contracts with Customers* and MFRS 9 *Financial Instruments* for the first time during the current financial year, using the cumulative effect method as at 1 July 2018. Consequently, the comparative information were not restated and are not comparable to the financial information of the current financial year.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements.

The preparation of financial statements in conformity with MFRSs and IFRSs requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Note 6 to the financial statements. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(a) Power over the investee;
(b) Exposure, or rights, to variable returns from its involvement with the investee; and
(c) The ability to use its power over the investee to affect its returns.

If the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) The contractual arrangement with the other vote holders of the investee;
(b) Rights arising from other contractual agreements; and
(c) The voting rights of the Group and potential voting rights.

Intragroup balances, transactions, income and expenses are eliminated on consolidation. Unrealised gains arising from transactions are also eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

Non-controlling interests represents the equity in subsidiaries that are not attributable, directly or indirectly, to owners of the parent, and is presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate. Assets, liabilities, income and expenses of a subsidiary acquired or disposed off during the financial year are included in the statements of profit or loss and other comprehensive income from the date of the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Basis of consolidation (continued)

If the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

(a) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
(b) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed off. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 *Financial Instruments* or, where applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4.3 Business combination

Business combinations are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

(a) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits respectively*;

(b) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 S*hare-based Payment* at the acquisition date; and

(c) assets (or disposal groups) that are classified as held for sale in accordance with MFRS *5 Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the serviced are received.

Any contingent consideration payable is recognised at fair value at the acquisition date.

Measurement period adjustments to contingent consideration are dealt with as follows:

(a) If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.

(b) Other contingent consideration that:

  (i) is within the scope of MFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with MFRS 9.
  (ii) is not within the scope of MFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Business combination (continued)

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at fair value. All other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement basis is made on a combination-by-combination basis. Subsequent to initial recognition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the consolidated statement of financial position. The accounting policy for goodwill is set out in Note 4.8 to the financial statements. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

4.4 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the subsequent costs would flow to the Group and the cost of the asset could be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has a different useful life, is depreciated separately.

After initial recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. The freehold land is stated at cost less accumulated impairment losses, if any.

Depreciation is calculated to write off the costs of the assets to their residual values on a straight line basis over their estimated useful lives. The principal annual depreciation periods and rates are as follows:

Leasehold land	82 to 94 years
Buildings	2% - 10%
Machinery, factory equipment, tools and equipment	10%
Motor vehicles and forklifts	10% - 20%
Office equipment, furniture and fittings	10% - 20%
Renovation	10% - 20%

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Property, plant and equipment and depreciation (continued)

Freehold land has unlimited useful life and is not depreciated.

At the end of each reporting period, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 4.9 to the financial statements on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

4.5 Leases and hire purchase

(a) Finance leases and hire purchase

Assets acquired under finance leases and hire purchase which transfer substantially all the risks and rewards of ownership to the Group are recognised initially at amounts equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the leases, if this is practicable to determine; if not, the Group's incremental borrowing rate is used. Any initial direct costs incurred by the Group are added to the amount recognised as an asset. The assets are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

The minimum lease payments are apportioned between finance charges and the reduction of the outstanding liability. The finance charges are recognised in profit or loss over the period of the lease term so as to produce a constant periodic rate of interest on the remaining lease and hire purchase liabilities.

(b) Operating leases

A lease is classified as an operating lease if it does not transfer substantively all the risks and reward incidental to ownership.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Leases and hire purchase (continued)

(c) Leases of land and buildings

For leases of land and buildings, the land and buildings elements are considered separately for the purpose of lease classification and these leases are classified as operating or finance leases in the same way as leases of other assets.

The minimum lease payments including any lump-sum upfront payments made to acquire the interest in the land and buildings are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and the buildings element of the lease at the inception of the lease.

For a lease of land and buildings in which the amount that would initially be recognised for the land element is immaterial, the land and buildings are treated as a single unit for the purpose of lease classification and is accordingly classified as a finance or operating lease. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

4.6 Investment properties

Investment properties are properties which are held to earn rental yields or for capital appreciation or for both and are not occupied by the Group. Investment properties also include properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including transaction costs, less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the carrying amount of the investment properties or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that future economic benefits associated with the cost would flow to the Group and the cost of the asset could be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of investment properties are recognised in profit or loss as incurred.

After initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the investment properties to their residual values on a straight line basis over their estimated useful lives. The principal annual depreciation rate for the investment property is 2%.

At the end of each reporting period, the carrying amount of an item of investment properties is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 4.9 to the financial statements on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the investment properties. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

Investment properties are derecognised when either they have been disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss in the period of the retirement or disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Investments

Subsidiaries

A subsidiary is an entity in which the Group and the Company are exposed, or have rights, to variable returns from its involvement with the subsidiary and have the ability to affect those returns through its power over the subsidiary.

An investment in subsidiary, which is eliminated on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. Put options written over non-controlling interests on the acquisition of subsidiary shall be included as part of the cost of investment in the Company's separate financial statements. Subsequent changes in the fair value of the written put options over non-controlling interests shall be recognised in profit or loss. Investments accounted for at cost shall be accounted for in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with MFRS 5.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the Group would derecognise all assets, liabilities and non-controlling interests at their carrying amount and recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

4.8 Intangible assets

Goodwill

Goodwill recognised in a business combination is an asset at the acquisition date and is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the interest of the Group in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortised but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount could be impaired. Objective events that would trigger a more frequent impairment review include adverse industry or economic trends, significant restructuring actions, significantly lowered projections of profitability, or a sustained decline in the acquiree's market capitalisation. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Impairment of non-financial assets

The carrying amounts of assets, except for financial assets (excluding investments in subsidiaries) and inventories, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

The recoverable amount of an asset is estimated for an individual asset. Where it is not possible to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit ('CGU') to which the asset belongs.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated to reduce the carrying amount of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in profit or loss immediately.

An impairment loss for assets is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in profit or loss.

4.10 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out formula. Cost of raw materials comprises all costs of purchase plus the costs of bringing the inventories to their present location and condition. Cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

Financial instruments are recognised on the statements of financial position when the Group has become a party to the contractual provisions of the instrument. At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(a) Financial assets

Current financial year - Accounting policies applied from 1 July 2018

When financial assets are initially recognised, they are measured at fair value, plus, in the case of financial assets not at Fair Value Through Profit or Loss (FVTPL), directly attributable transaction costs.

The Group determines the classification of financial assets upon initial recognition. The measurement for each classification of financial assets are as below:

(i) Financial assets measured at amortised cost

Financial assets that are debt instruments are measured at amortised cost if they are held within a business model whose objective is to collect contractual cash flows and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss through the amortisation process. Financial assets are carried net of impairment losses, if any.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial instruments (continued)

(a) Financial assets (continued)

Current financial year - Accounting policies applied from 1 July 2018 (continued)

The Group determines the classification of financial assets upon initial recognition. The measurement for each classification of financial assets are as below: (continued)

(ii) Financial assets measured at fair value

Financial assets that are debt instruments are measured at Fair Value Through Other Comprehensive Income (FVTOCI), if they are held within a business model whose objectives are to collect contractual cash flows and selling the financial assets, and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequently to initial recognition, financial assets that are debt instruments are measured at fair value. Any gains or losses arising from the changes in fair value are recognised in other comprehensive income, except for impairment losses, exchange differences and interest income which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Financial assets that are debt instruments which do not satisfy the requirements to be measured at amortised cost or FVTOCI are measured at FVTPL.

Equity instruments are classified as financial assets measured at FVTPL if they are held for trading or are designated as such upon initial recognition. Equity instruments are classified as held for trading if they are acquired principally for sale in the near term or are derivatives that do not meet the hedge accounting criteria (including separated embedded derivatives).

Subsequent to initial recognition, financial assets that are equity instruments are measured at fair value. Any gains or losses arising from the changes in fair value are recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in profit or loss.

Cash and bank balances are measured at amortised cost. Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three (3) months or less and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial instruments (continued)

(a) Financial assets (continued)

Previous financial year - Accounting policies applied until 30 June 2018

A financial asset is classified into the following four (4) categories after initial recognition for the purpose of subsequent measurement:

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading (i.e. financial assets acquired principally for the purpose of resale in the near term), derivatives (both, freestanding and embedded) and financial assets that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial assets classified as fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as fair value through profit or loss are recognised in profit or loss.

However, derivatives that is linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted market price in an active market are recognised at cost.

(ii) Held-to-maturity investments

Financial assets classified as held-to-maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, financial assets classified as held-to-maturity are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as held-to-maturity are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

(iii) Loans and receivables

Financial assets classified as loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, financial assets classified as loans and receivables are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as loans and receivables are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial instruments (continued)

(a) Financial assets (continued)

Previous financial year - Accounting policies applied until 30 June 2018 (continued)

(iv) Available-for-sale financial assets

Financial assets classified as available-for-sale comprise non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss whilst dividends on available-for-sale equity instruments are recognised in profit or loss when the right of the Group to receive payment is established.

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three (3) months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

A financial asset is derecognised when the contractual right to receive cash flows from the financial asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised directly in other comprehensive income shall be recognised in profit or loss.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting.

(b) Financial liabilities

Current financial year - Accounting policies applied from 1 July 2018

Financial liabilities are classified according to the substance of the contractual arrangements entered into and meet the definition of a financial liability.

Financial liabilities are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortised cost.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial instruments (continued)

(b) Financial liabilities (continued)

Current financial year - Accounting policies applied from 1 July 2018 (continued)

(i) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This includes derivatives entered into by the Group that does not meet the hedge accounting criteria. Derivatives liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss except for the Group's own credit risk increase or decrease which is recognised in other comprehensive income. Net gain or losses on derivatives include exchange differences.

(ii) Financial liabilities measured at amortised cost

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

A financial liability is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Previous financial year - Accounting policies applied until 30 June 2018

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. A financial liability is classified into the following two (2) categories after initial recognition for the purpose of subsequent measurement:

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial instruments (continued)

(b) Financial liabilities (continued)

Previous financial year - Accounting policies applied until 30 June 2018 (continued)

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, derivatives (both, freestanding and embedded) and financial liabilities that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial liabilities classified as fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial liabilities classified as fair value through profit or loss are recognised in profit or loss.

(ii) Other financial liabilities

Financial liabilities classified as other financial liabilities comprise non-derivative financial liabilities that are neither held for trading nor initially designated as at fair value through profit or loss.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains or losses on other financial liabilities are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

A financial liability is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity instruments.

Ordinary shares are recorded at the proceeds received at issuance and classified as equity. Transaction costs directly related to the issuance of equity instrument are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Interim dividends to shareholders are recognised in equity in the period in which they are declared. Final dividends are recognised upon the approval of shareholders in a general meeting.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Group designates corporate guarantees given to banks for credit facilities granted to subsidiaries as insurance contracts as defined in MFRS 4 *Insurance Contracts*. The Group recognises these insurance contracts as recognised insurance liabilities when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

At the end of each reporting period, the Group assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If this assessment shows that the carrying amount of the insurance liabilities is inadequate, the entire deficiency shall be recognised in profit or loss.

Recognised insurance liabilities are only removed from the statements of financial position when, and only when, it is extinguished via a discharge, cancellation or expiration.

4.13 Impairment of financial assets

Current financial year - Accounting policies applied from 1 July 2018

The Group applies the simplified approach to measure expected credit loss ("ECL"). This entails recognising a lifetime expected loss allowance for all trade receivables.

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the asset's original effective interest rate of the asset.

The Group considers credit loss experience and observable data such as current changes and future forecasts in economic conditions of the Group's industry to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

Impairment for trade receivables that do not contain a significant financing component are recognised based on the simplified approach within MFRS 9 using the lifetime expected credit losses.

In measuring the expected credit losses on trade receivables, the probability of non-payment by the trade receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised in the statements of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectible, the gross carrying value of the asset would be written off against the associated impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Impairment of financial assets (continued)

Current financial year - Accounting policies applied from 1 July 2018 (continued)

Impairment for other receivables are recognised based on the general approach within MFRS 9 using the forward looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. At the end of the reporting period, the Group assesses whether there has been a significant increase in credit risk for financial assets by comparing the risk for default occurring over the expected life with the risk of default since initial recognition. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The probability of non-payment other receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the twelve month or lifetime expected credit loss for other receivables.

The carrying amount of the financial asset is reduced through the use of an allowance for impairment loss account and the amount of impairment loss is recognised in profit or loss. When a financial asset becomes uncollectible, it is written off against the allowance for impairment loss account.

Previous financial year - Accounting policies applied until 30 June 2018

The Group assesses whether there is any objective evidence that a financial asset is impaired at the end of each reporting period.

Loans and receivables

The Group collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments by the receivable, to determine whether there is objective evidence that an impairment loss on loans and receivables has occurred. Other objective evidence of impairment include historical collection rates determined on an individual basis and observable changes in national or local economic conditions that are directly correlated with the historical default rates of receivables.

If any such objective evidence exists, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of loans and receivables are reduced through use of an allowance account.

If in a subsequent period, the amount of the impairment loss decreases and it objectively relates to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of impairment reversed is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or production of a qualified asset is capitalised as part of the cost of the asset until when substantially all the activities necessary to prepare the asset for its intended use or sale are complete, after which such expense is charged to profit or loss. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing cost is suspended during extended periods in which active development is interrupted.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on the borrowing during the period less any investment income on the temporary investment of the borrowing.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.15 Income taxes

Income taxes include all taxes on taxable profit. Taxes in the statements of profit or loss and other comprehensive income comprise current tax and deferred tax.

(a) Current tax

Current tax expenses are determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits.

(b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statements of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit would be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profit would be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset would be reduced accordingly. When it becomes probable that sufficient taxable profit would be available, such reductions would be reversed to the extent of the taxable profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Income taxes (continued)

(b) Deferred tax (continued)

Deferred tax would be recognised as income or expense and included in profit or loss for the period unless the tax relates to items that are credited or charged, in the same or different period, directly to equity, in which case the deferred tax would be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the announcement of tax rates and tax laws by the Government in the annual budgets which have the substantive effect of actual enactment by the end of each reporting period.

4.16 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, the amount of a provision would be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits would be required to settle the obligation, the provision would be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

4.17 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources would be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise a contingent asset but discloses its existence where the inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Employee benefits

(a) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are measured on an undiscounted basis and are expensed when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur and they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the Group.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(b) Defined contribution plan

The Group and its subsidiaries incorporated in Malaysia make contributions to a statutory provident fund. The contributions are recognised as a liability after deducting any contributions already paid and as an expense in the period in which the employees render their services.

4.19 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional and presentation currency.

(b) Foreign currency translations and balances

Transactions in foreign currencies are converted into functional currency at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of the reporting period are translated into functional currency at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost, are translated using the historical rate as of the date of acquisition, and non-monetary items, which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided as the Group performs;

(b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

Revenue is measured at the fair value of consideration received or receivable. The following describes the performance obligations in contracts with customers:

(a) Sale of goods

Revenue from sale of goods is recognised at a point in time when the goods have been transferred to the customer and coincides with the delivery of goods and acceptance by customers.

(b) Management fees services

Revenue from services rendered is recognised at a point in time when services have been rendered to the customer and coincides with the rendering of services and acceptance by customers.

Revenue not contracted with customers:

(a) Interest income

Interest income is recognised as it accrues, using the effective interest method.

(b) Rental income

Rental income is accounted for on a straight line basis over the lease term of an ongoing lease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.21 Operating segments

Operating segments are defined as components of the Group that:

(a) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);

(b) whose operating results are regularly reviewed by the Group's chief operating decision makers (i.e. the Group's Executive Directors) in making decisions about resources to be allocated to the segment and assessing its performance; and

(c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.

The Group reports separately information about each operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is ten percent (10%) or more of the combined revenue, internal and external, of all operating segments.

(b) The absolute amount of its reported profit or loss is ten percent (10%) or more of the greater, in absolute amount of:

    (i) the combined reported profit of all operating segments that did not report a loss; and

    (ii) the combined reported loss of all operating segments that reported a loss.

(c) Its assets are ten percent (10%) or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

Total external revenue reported by operating segments shall constitute at least seventy five percent (75%) of the revenue of the Group. Operating segments identified as reportable segments in the current financial year in accordance with the quantitative thresholds, if any, result in a restatement of prior period segment data for comparative purposes.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22 Earnings per share

(a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.

4.23 Fair value measurement

The fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

The Group measures the fair value of an asset or a liability by taking into account the characteristics of the asset or liability if market participants would take these characteristics into account when pricing the asset or liability. The Group has considered the following characteristics when determining fair value:

(a) The condition and location of the asset; and

(b) Restrictions, if any, on the sale or use of the asset.

The fair value measurement for a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of a financial or non-financial liability or an entity's own equity instrument assumes that:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

5. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs

5.1 New MFRSs adopted during the current financial year

The Group and the Company adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the financial year.

Title	Effective Date
Amendments to MFRS 1 *Annual Improvements to MFRS Standards 2014 - 2016 Cycle*	1 January 2018
MFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Clarification to MFRS 15	1 January 2018
MFRS 9 *Financial Instruments (IFRS as issued by IASB in July 2014)*	1 January 2018
Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to MFRS 128 *Annual Improvements to MFRS Standards 2014 - 2016 Cycle*	1 January 2018
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to MFRS 140 *Transfers of Investment Property*	1 January 2018
Amendments to MFRS 4 *Applying MFRS 9* Financial Instruments *with MFRS 4* Insurance Contracts	See MFRS 4 Paragraphs 46 and 48

Adoption of the above Standards did not have any material effect on the financial performance or position of the Group and of the Company. The impact on the adoption of MFRS 9 and MFRS 15 on the financial statements of the Group and of the Company are described in the following sections:

(a) MFRS 9 *Financial Instruments*

MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, encompassing all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted MFRS 9 with an initial application date of 1 July 2018. In accordance with the transitional provisions provided in MFRS 9, comparative information for 2018 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. Differences arising from the adoption of MFRS 9 have been recognised directly in retained earnings and other components of equity, if any.

(i) Classification of financial assets and financial liabilities

The Group and the Company classify their financial assets into the following measurement categories depending on the business model of the Group and of the Company for managing the financial assets and the terms of contractual cash flows of the financial assets:

- Those to be measured at amortised cost; and
- Those to be measured subsequently at fair value either through other comprehensive income or through profit or loss.

5. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (CONTINUED)

5.1 New MFRSs adopted during the current financial year (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(i) Classification of financial assets and financial liabilities (continued)

The following summarises the key changes:

- The Available-For-Sale (AFS), Held-To-Maturity (HTM) and Loans and Receivables (L&R) financial asset categories were removed.
- A new financial asset category measured at Amortised Cost (AC) was introduced. This applies to financial assets with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by collecting contractual cash flows.
- A new financial asset category measured at Fair Value Through Other Comprehensive Income (FVTOCI) was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- A new financial asset category for non-traded equity investments measured at FVTOCI was introduced.

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities.

However, under MFRS 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under MFRS 9 these fair value changes are generally presented as follows:

- Amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- The remaining amount of change in the fair value is presented in profit or loss.

(ii) Impairment of financial assets

The adoption of MFRS 9 has fundamentally changed the accounting for impairment losses for financial assets of the Group and of the Company by replacing the incurred loss approach of MFRS 139 with a forward-looking expected credit loss (ECL) approach. MFRS 9 requires the Group and the Company to record an allowance for expected credit losses for all debt financial assets not held at fair value through profit or loss.

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the asset's original effective interest rate of the asset.

5. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (CONTINUED)

5.1 New MFRSs adopted during the current financial year (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(ii) Impairment of financial assets (continued)

Impairment for trade receivables and contract assets that do not contain a significant financing component are recognised based on the simplified approach within MFRS 9 using the lifetime expected credit losses.

During this process, the probability of non-payment by the trade receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised in the statements of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectible, the gross carrying value of the asset would be written off against the associated impairment.

Impairment for other receivables are recognised based on the general approach within MFRS 9 using the forward looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

(iii) Classification and measurement

The following table summarises the reclassification and measurement of the financial assets and financial liabilities of the Group and of the Company as at 1 July 2018:

	Classification	
	Existing under MFRS 139	**New under MFRS 9**
Group		
Financial assets		
Trade and other receivables, net of prepayments	L&R	AC
Cash and bank balances	L&R	AC
Financial liabilities		
Trade and other payables	OFL *	AC
Borrowings	OFL *	AC
Derivative financial liabilities	FVTPL	FVTPL

5. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (CONTINUED)

5.1 New MFRSs adopted during the current financial year (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(iii) Classification and measurement (continued)

	Classification	
	Existing under MFRS 139	**New under MFRS 9**
Company		
Financial assets		
Other receivables	L&R	AC
Cash and bank balances	L&R	AC
Financial liabilities		
Other payables	OFL *	AC

* Other Financial Liabilities at Amortised Cost.

(b) MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 establishes a comprehensive framework for revenue recognition and measurement. It replaces MFRS 118 *Revenue*, MFRS 111 *Construction Contracts*, and related Interpretations. Under MFRS 15, revenue is recognised when a customer obtains control of the goods or services. Revenue will be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Determining the timing of the transfer of control, at a point in time or over time, requires significant judgement.

There is no material impact on the adoption of MFRS 15 on the financial statements of the Group and of the Company.

5. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (CONTINUED)

5.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2019

The following are Standards of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group and the Company:

Title	Effective date
MFRS *16 Leases*	1 January 2019
IC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to MFRS 9 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to MFRS 3 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 11 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 112 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 123 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 119 *Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to *References to the Conceptual Framework in MFRS Standards*	1 January 2020
Amendments to MFRS 3 *Definition of a Business*	1 January 2020
Amendments to MFRS 101 and MFRS 108 *Definition of Material*	1 January 2020
MFRS 17 *Insurance Contracts*	1 January 2021
Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred

The Group and the Company are in the process of assessing the impact of implementing these Standards, since the effects would only be observable in future financial years.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated by the management of the Group and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have a material impact to the Group's and the Company's result and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

<u>Recoverability of trade receivables</u>

Recoverability of trade receivables requires management to exercise significant judgements in determining the probability of default by trade receivables and appropriate forward looking information.

7. PROPERTY, PLANT AND EQUIPMENT

Group	Balance as at 1.7.2018 RM	Additions RM	Disposals RM	Written off RM	Depreciation charge for the year RM	Balance as at 30.6.2019 RM
Carrying amount						
Freehold land	7,735,501	-	-	-	-	7,735,501
Leasehold land	8,442,911	-	-	-	(108,053)	8,334,858
Buildings	32,272,123	2,490,868	-	(107,848)	(1,119,106)	33,536,037
Machinery, factory equipment, tools and equipment	8,774,542	1,813,842	(9)	-	(1,257,391)	9,330,984
Motor vehicles and forklifts	1,957,646	590,808	(5)	-	(687,517)	1,860,932
Office equipment, furniture and fittings	366,917	122,127	(378)	-	(61,583)	427,083
Renovation	415,316	-	-	-	(74,854)	340,462
	59,964,956	5,017,645	(392)	(107,848)	(3,308,504)	61,565,857

	30.6.2019		
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Freehold land	7,735,501	-	7,735,501
Leasehold land	9,308,560	(973,702)	8,334,858
Buildings	42,331,331	(8,795,294)	33,536,037
Machinery, factory equipment, tools and equipment	32,263,012	(22,932,028)	9,330,984
Motor vehicles and forklifts	6,967,367	(5,106,435)	1,860,932
Office equipment, furniture and fittings	1,706,702	(1,279,619)	427,083
Renovation	1,132,970	(792,508)	340,462
	101,445,443	(39,879,586)	61,565,857

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Balance as at 1.7.2017 RM	Additions RM	Disposals RM	Reclassification RM	Reclassification (Note 8) RM	Depreciation charge for the year RM	Balance as at 30.6.2018 RM
Carrying amount							
Freehold land	7,735,501	-	-	-	-	-	7,735,501
Leasehold land	9,459,653	-	-	-	(908,690)	(108,052)	8,442,911
Buildings	29,407,339	3,527,905	-	1,784,890	(1,560,339)	(887,672)	32,272,123
Machinery, factory equipment, tools and equipment	8,311,478	1,736,147	(80,902)	-	-	(1,192,181)	8,774,542
Motor vehicles and forklifts	1,403,887	1,084,000	(3)	-	-	(530,238)	1,957,646
Office equipment, furniture and fittings	290,564	142,439	(4,768)	-	-	(61,318)	366,917
Renovation	2,275,584	-	-	(1,784,890)	-	(75,378)	415,316
	58,884,006	6,490,491	(85,673)	-	(2,469,029)	(2,854,839)	59,964,956

	At 30.6.2018		
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Freehold land	7,735,501	-	7,735,501
Leasehold land	9,308,560	(865,649)	8,442,911
Buildings	39,992,777	(7,720,654)	32,272,123
Machinery, factory equipment, tools and equipment	32,413,099	(23,638,557)	8,774,542
Motor vehicles and forklifts	7,047,693	(5,090,047)	1,957,646
Office equipment, furniture and fittings	1,620,951	(1,254,034)	366,917
Renovation	1,132,970	(717,654)	415,316
	99,251,551	(39,286,595)	59,964,956

(a) During the financial year, the Group made the following cash payments to purchase property, plant and equipment:

	Group	
	2019 RM	2018 RM
Purchase of property, plant and equipment	5,017,645	6,490,491
Financed by hire purchase arrangements	(1,937,381)	(1,843,660)
Cash payments on purchase of property, plant and equipment	3,080,264	4,646,831

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) The carrying amount of property, plant and equipment of the Group under hire purchase arrangements are as follows:

	Group	
	2019 RM	2018 RM
Motor vehicles and forklifts	1,265,000	1,080,544
Machinery	5,808,504	4,962,977
	7,073,504	6,043,521

(c) As at the end of the reporting year, certain freehold land, leasehold land and buildings with a carrying amount of RM47,326,265 (2018: RM42,108,278) have been charged to financial institutions for credit facilities granted to the Group as disclosed in Notes 16 and 17 to the financial statements.

8. INVESTMENT PROPERTY

Group	Balance as at 1.7.2018 RM	Depreciation charge for the year RM	Balance as at 30.6.2019 RM
Carrying amount			
Leasehold land and building	2,402,197	(66,832)	2,335,365

	At 30.6.2019		
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Leasehold land and building	3,365,788	(1,030,423)	2,335,365

Group	Balance as at 1.7.2017 RM	Reclassification (Note 7) RM	Depreciation charge for the year RM	Balance as at 30.6.2018 RM
Carrying amount				
Leasehold land and building	-	2,469,029	(66,832)	2,402,197

8. INVESTMENT PROPERTY (CONTINUED)

	At 30.6.2018		
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Leasehold land and building	3,365,788	(963,591)	2,402,197

(a) Investment property has been charged to financial institutions for credit facilities granted to the Group as disclosed in Note 16 to the financial statements.

(b) Direct operating income and expenses arising from investment property during the financial year are as follows:

	Group	
	2019 RM	2018 RM
Rental income	360,000	360,000
Quit rent and assessment - generating rental income	18,423	18,423

(c) The fair value of the investment property of approximately RM3,390,000 (2018: RM3,390,000) at Level 3 was recommended by the Directors as at the end of reporting year based on comparison method that makes reference to recent market value of a similar property in the vicinity on a price per square feet basis. Any changes in the price per square feet will result in a reasonable change in the fair value of the investment property.

9. GOODWILL ON CONSOLIDATION

	At 30.6.2019		
Group	Cost RM	Accumulated impairment RM	Carrying amount RM
Carrying amount			
Goodwill	2,451,617	(2,451,617)	-

	At 30.6.2018		
Group	Cost RM	Accumulated impairment RM	Carrying amount RM
Carrying amount			
Goodwill	2,451,617	(2,451,617)	-

10. INVESTMENTS IN SUBSIDIARIES

	Company	
	2019 RM	2018 RM
Unquoted shares, at cost	62,937,457	62,937,457

(a) The details of the subsidiaries are as follows:

Name of company	Country of incorporation	Interest in equity held by Company 2019 %	Company 2018 %	Subsidiary 2019 %	Subsidiary 2018	Principal activities
Sern Kou Furniture Industries Sdn. Bhd. ("SKFI") #	Malaysia	100	100	-	-	Manufacturing, processing and trading all kinds of timber, wood and related products
S.K. Furniture Sdn. Bhd. ("SKF") #	Malaysia	100	100	-	-	Manufacturing and trading wooden furniture
Valued Products (M) Sdn. Bhd. ("VPM") #	Malaysia	100	100	-	-	Manufacturing, processing, trading and transportation of all kinds of timber, wood and related products
Souncern Timber Sdn. Bhd. ("ST") #	Malaysia	100	100	-	-	Logging, processing and trading of rubberwood and timber
Subsidiary of VPM						
Sern Kou Plywood Sdn. Bhd. ("SKPW") #	Malaysia	-	-	51	51	Manufacturing of plywood and related products
Subsidiary of SKFI						
My Smartlife Sdn. Bhd. ("MSSB")*	Malaysia	-	-	-	51	Dormant

\# Audited by BDO PLT
* Consolidated based on management accounts

(b) In the previous financial year, the Group had acquired 51% of equity interest in newly incorporated MSSB, representing 510 ordinary shares for a total cash consideration of RM510. Upon incorporation, MSSB became a subsidiary of the Group.

10. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(c) Subsidiaries of the Group that has non-controlling interests ("NCI") are as follows:

	NCI percentage of ownership interest and voting interest		Group	
	2019 %	2018 %	2019 RM	2018 RM
Carrying amount of NCI				
SKPW	49	49	1,096,647	777,459
MSSB	-	49	-	(980)
			1,096,647	776,479
Profit/(Loss) for the financial year/ Total comprehensive income/(loss) allocated to NCI				
SKPW			319,188	36,846
MSSB			(245)	(1,470)
			318,943	35,376

(d) Summarised financial information before intra-group elimination of subsidiaries that have NCI as at the end of each reporting period are as follows:

	SKPW	
	2019 RM	2018 RM
Assets and liabilities		
Non-current assets	768,735	786,207
Non-current liabilities	(29,350)	-
Current assets	5,310,182	3,536,799
Current liabilities	(3,811,512)	(2,736,356)
Net assets	2,238,055	1,586,650
Results		
Revenue	21,698,224	15,973,146
Profit for the financial year/Total comprehensive income	651,404	75,195
Cash flows from/(used in) operating activities	252,269	(10,875)
Cash flows used in investing activities	(78,010)	(12,748)
Net increase/(decrease) in cash and cash equivalents	174,259	(23,623)
Dividend paid to NCI	-	-

10. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(d) Summarised financial information before intra-group elimination of subsidiaries that have NCI as at the end of each reporting period are as follows: (continued)

	MSSB	
	2019 RM	2018 RM
Assets and liabilities		
Current assets	-	1,000
Current liabilities	-	(3,000)
Net liabilities	-	(2,000)
Results		
Revenue	-	-
Loss for the financial year/Total comprehensive loss	(500)	(3,000)
Cash flows used in operating activities	-	(3,000)
Cash flows from financing activities	-	3,000
Net increase in cash and cash equivalents	-	-
Dividend paid to NCI	-	-

(e) On 24 January 2019, the Group has disposed 51% equity interest in MSSB, representing 510 ordinary shares for a total cash consideration of RM510. Upon the completion on 24 January 2019, MSSB is no longer a subsidiary of the Group. The financial effects of the disposal at the date of disposal are summarised below:

	Group 2019 RM
Cash and bank balances	1,000
Other payables	(3,500)
Non-controlling interests	1,225
Carrying amount of net liabilities disposed off	(1,275)
Less: Gain on disposal of subsidiary	1,785
Consideration received	510
Less: Cash and bank balances of subsidiary disposed off	(1,000)
Net cash outflow from disposal of subsidiary	(490)

11. INVENTORIES

	Group	
	2019 RM	2018 RM
At cost		
Raw materials	10,083,751	4,297,590
Work-in-progress	3,979,246	3,946,391
Finished goods	9,260,932	8,654,128
	23,323,929	16,898,109
At net realisable value		
Finished goods	402,405	252,800
	23,726,334	17,150,909

(a) During the financial year, inventories of the Group recognised as cost of sales amounted to RM146,967,132 (2018: RM95,378,256).

(b) During the financial year, the Group had written down inventories of RM53,741 (2018: RM49,583).

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Trade receivables				
Third parties	69,164,892	36,890,893	-	-
Related party	-	10,175	-	-
	69,164,892	36,901,068	-	-
Less: Impairment losses on trade receivables	(229,000)	(95,879)	-	-
Total trade receivables	68,935,892	36,805,189	-	-
Other receivables				
Deposits	1,395,019	1,676,845	1,000	1,000
Other receivables	1,185,761	2,143,135	21,295	22,697
	2,580,780	3,819,980	22,295	23,697
Less: Impairment losses on other receivables	(559,297)	(559,297)	-	-
Total other receivables	2,021,483	3,260,683	22,295	23,697
Total receivables	70,957,375	40,065,872	22,295	23,697
Prepayments	17,908,570	15,739,972	23,386	13,022
	88,865,945	55,805,844	45,681	36,719

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 30 to 120 days (2018: 30 to 120 days). They are recognised at their original invoice amounts, which represent their fair value on initial recognition.

(b) Included in prepayments of the Group are advance payments of RM15,640,000 (2018: RM13,690,216) for the future supply of rubberwood and timber logs.

(c) The currency exposure profile of trade and other receivables (net of prepayments) is as follows:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Ringgit Malaysia	63,757,036	35,561,499	22,295	23,697
Chinese Yuan	3,213,501	-	-	-
United States Dollar	3,986,838	4,504,373	-	-
	70,957,375	40,065,872	22,295	23,697

(d) Impairment for trade receivables that do not contain a significant financing component are recognised based on the simplified approach using the lifetime expected credit losses.

During this process, the probability of non-payment by the trade receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised in the statements of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectible, the gross carrying value of the asset would be written off against the associated impairment.

It requires management to exercise significant judgement in determining the probability of default by trade receivables and appropriate forward looking information.

The reconciliation of movements in the impairment losses on trade receivables is as follows:

	Lifetime ECL allowance RM	Credit impaired RM	Total allowance RM
Group			
At 1 July 2018 under MFRS 139	-	95,879	95,879
Effects of adoption of MFRS 9	-	-	-
Opening impairment loss of trade receivables in accordance with MFRS 9	-	95,879	95,879
Charge for the financial year	229,000	-	229,000
Written off	-	(95,879)	(95,879)
At 30 June 2019	229,000	-	229,000
At 1 July 2017/ 30 June 2018	-	95,879	95,879

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Trade receivables that are individually determined to be impaired at the end of the reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

(e) Lifetime expected loss provision for trade receivables of the Group are as follows:

	Gross carrying amount RM	Lifetime ECL RM	Carrying amount RM
As at 30 June 2019			
Not past due	58,603,904	(22,000)	58,581,904
Past due:			
1 to 30 days	130,782	-	130,782
31 to 60 days	-	-	-
61 to 90 days	1,167,144	(3,000)	1,164,144
More than 90 days	9,263,062	(204,000)	9,059,062
	10,560,988	(207,000)	10,353,988
Individual assessment	-	-	-
	69,164,892	(229,000)	68,935,892

	Gross carrying amount RM	Impairment RM	Carrying amount RM
As at 30 June 2018			
Not past due	36,608,740	-	36,608,740
Past due:			
1 to 30 days	2,735	-	2,735
31 to 60 days	193,714	-	193,714
	196,449	-	196,449
Individual assessment	95,879	(95,879)	-
	36,901,068	(95,879)	36,805,189

None of the trade receivables of the Group that are past due but not impaired have been renegotiated during the financial year.

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

(f) Impairment for other receivables are recognised based on the general approach within MFRS 9 using the forward looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve-month expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with gross interest income are recognised. As at the end of the reporting period, the Group and the Company assess whether there has been a significant increase in credit risk for financial asset by comparing the risk for default occurring over the expected life with the risk of default since initial recognition. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The reconciliation of movements in the impairment losses on other receivables is as follows:

	Lifetime ECL - credit impaired RM
Group	
At 1 July 2018 under MFRS 139	559,297
Restated through opening retained earnings	-
Opening impairment loss of other receivables in accordance with MFRS 9/At 30 June 2019	559,297
At 1 July 2017/ 30 June 2018	559,297

Other receivables that are individually determined to be impaired at the end of the reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

(g) Information on financial risk of trade and other receivables is disclosed in Note 32 to the financial statements.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2019		2018	
Group	Contract/ Notional amount RM	Assets/ Liabilities RM	Contract/ Notional amount RM	Liabilities RM
Forward currency contracts	-	-	2,364,451	59,035

Forward currency contracts had been entered into operationally hedge forecast sales denominated in foreign currencies that were expected to occur at various dates within six (6) months from the end of the reporting period. The forward currency contracts had maturity dates that coincide with the expected occurrence of these transactions. The fair value of these components had been determined based on the difference between the spot rate and the market rate.

14. CASH AND BANK BALANCES

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash in hand	66,641	66,810	-	-
Bank balances	11,852,686	16,295,071	144,237	258,166
	11,919,327	16,361,881	144,237	258,166

(a) Included in the Group's bank balances is an amount of RM55,000 (2018: RM206,892) held under a Designated Escrow Account which has been charged to financial institution for credit facilities granted to the Group as disclosed in Note 17(a) to the financial statements and are not available for general use by the Company.

(b) The currency exposure profile of cash and bank balances is as follows:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Ringgit Malaysia	10,621,951	14,394,382	144,237	258,166
Chinese Yuan	48,092	1,531,640	-	-
United States Dollar	1,227,877	404,312	-	-
Others	21,407	31,547	-	-
	11,919,327	16,361,881	144,237	258,166

(c) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash and bank balances	11,919,327	16,361,881	144,237	258,166
Less:				
Bank balances pledged to a licensed bank	(55,000)	(206,892)	-	-
Bank overdrafts included in borrowings (Note 16)	(6,422,533)	(7,407,273)	-	-
	5,441,794	8,747,716	144,237	258,166

(d) No expected credit losses are recognised arising from the deposits with licensed banks because the probability of default by these licensed banks is negligible.

(e) Information on financial risks of cash and bank balances is disclosed in Note 32 to the financial statements.

15. SHARE CAPITAL

	Group and Company			
	2019		2018	
	Number of shares	RM	Number of shares	RM
Issued and fully paid up ordinary shares				
As at beginning of financial year	240,000,000	60,000,000	120,000,000	60,000,000
Issued pursuant to share split	-	-	120,000,000	-
As at end of financial year	240,000,000	60,000,000	240,000,000	60,000,000

(a) In the previous financial year, the ordinary shares of the Company had increased from 120,000,000 to 240,000,000 by way of share split of every one (1) ordinary share of the Company into two (2) new ordinary shares of the Company.

(b) The owners of the parent are entitled to receive dividends as and when declared by the Company and are entitled to one (1) vote per ordinary share at meeting of the Company. All ordinary shares rank *pari passu* with regard to the residual assets of the Company.

16. BORROWINGS

		Group	
	Note	2019 RM	2018 RM
Non-current liabilities			
Term loans	17	17,247,834	17,959,215
Hire purchase creditors	18	1,143,410	1,944,214
		18,391,244	19,903,429
Current liabilities			
Bank overdrafts		6,422,533	7,407,273
Bankers' acceptances		31,524,613	20,177,150
Term loans	17	14,236,230	9,625,024
Hire purchase creditors	18	2,302,277	2,078,147
		54,485,653	39,287,594
Total borrowings			
Bank overdrafts	14	6,422,533	7,407,273
Bankers' acceptances		31,524,613	20,177,150
Term loans	17	31,484,064	27,584,239
Hire purchase creditors	18	3,445,687	4,022,361
		72,876,897	59,191,023

16. BORROWINGS (CONTINUED)

(a) Bank overdrafts and bankers' acceptances are secured by:

(i) legal charge over certain freehold land, leasehold land, buildings, and investment property of certain subsidiaries as disclosed in Note 7 and Note 8 to the financial statements; and

(ii) a corporate guarantee of the Company as disclosed in Note 22 to the financial statements.

(b) All borrowings are denominated in RM.

(c) Information on financial risk of borrowings and its remaining maturity is disclosed in Note 32 to the financial statements.

17. TERM LOANS

	Group	
	2019 RM	2018 RM
Current liabilities (Note 16)		
- not later than one (1) year	14,236,230	9,625,024
Non-current liabilities (Note 16)		
- later than one (1) year and not later than five (5) years	8,111,154	6,860,169
- later than five (5) years	9,136,680	11,099,046
	17,247,834	17,959,215
	31,484,064	27,584,239

(a) Term loans of the Group are secured by:

(i) legal charges over certain freehold land, leasehold land and buildings of certain subsidiaries as disclosed in Note 7 to the financial statements;

(ii) legal charge over a Designated Account of the Group maintained with the bank as disclosed in Note 14(a) to the financial statements.

(iii) a corporate guarantee of the Company as disclosed in Note 22 to the financial statements.

(b) Information on financial risk of term loans and its remaining maturity is disclosed in Note 32 to the financial statements.

18. HIRE PURCHASE CREDITORS

	Group	
	2019 RM	2018 RM
Minimum hire purchase payments		
- not later than one (1) year	2,434,652	2,277,175
- later than one (1) year and not later than five (5) years	1,178,809	2,014,510
	3,613,461	4,291,685
Less: Future interest charges	(167,774)	(269,324)
	3,445,687	4,022,361
Repayable as follows		
Current liabilities (Note 16)		
- not later than one (1) year	2,302,277	2,078,147
Non-current liabilities (Note 16)		
- later than one (1) year and not later than five (5) years	1,143,410	1,944,214
	3,445,687	4,022,361

(a) Interest rates are fixed at the inception of the hire purchase arrangements.

(b) Information on financial risk of hire purchase creditors and its remaining maturity is disclosed in Note 32 to the financial statements.

19. DEFERRED TAX LIABILITIES

(a) The deferred tax assets and liabilities are made up of the following:

	Group	
	2019 RM	2018 RM
Balance at beginning of the year	1,223,385	769,993
Recognised in profit or loss (Note 25)	(103,121)	453,392
Balance at end of the year	1,120,264	1,223,385
Presented after appropriate offsetting:		
Deferred tax assets, net	-	-
Deferred tax liabilities, net	1,120,264	1,223,385
Balance as at 30 June	1,120,264	1,223,385

19. DEFERRED TAX LIABILITIES (CONTINUED)

(b) The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

	Property, plant and equipment RM	Unused tax losses and unabsorbed capital allowances RM	Total RM
As at 1 July 2017	927,739	(157,746)	769,993
Recognised in profit or loss	879,888	(426,496)	453,392
As at 30 June 2018	1,807,627	(584,242)	1,223,385
Recognised in profit or loss	56,151	(159,272)	(103,121)
As at 30 June 2019	1,863,778	(743,514)	1,120,264

(c) The amounts of temporary differences for which no deferred tax assets have been recognised in the statements of financial position are as follows:

	Group	
	2019 RM	2018 RM
Unused tax losses - Expires by 30 June 2026	2,053,001	929,701
Unabsorbed capital allowances - No expiry date	-	55,791
	2,053,001	985,492

Deferred tax assets have not been recognised in respect of these items as it is not probable that taxable profits of the subsidiaries would be available against which the deductible temporary differences can be utilised.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Trade payables				
Third parties	19,307,099	8,978,990	-	-
Other payables				
Amount owing to a subsidiary	-	-	1,100,000	1,300,000
Amounts owing to non-controlling interests	194,354	206,180	-	-
Other payables	3,488,866	1,658,959	115,836	98,727
Accruals	1,819,260	1,749,071	9,568	9,805
Deposits received	360,772	907,967	-	-
	5,863,252	4,522,177	1,225,404	1,408,532
	25,170,351	13,501,167	1,225,404	1,408,532

20. TRADE AND OTHER PAYABLES (CONTINUED)

(a) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 120 days (2018: 30 to 120 days).

(b) Amounts owing to a subsidiary and non-controlling interests represent advances, which are unsecured, interest-free and payable upon demand.

(c) The currency exposure profile of payables is as follows:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Ringgit Malaysia	23,953,787	12,708,099	1,225,404	1,408,532
United States Dollar	1,216,564	793,068	-	-
	25,170,351	13,501,167	1,225,404	1,408,532

(d) Information on financial risks of trade and other payables is disclosed in Note 32 to the financial statements.

21. COMMITMENTS

(a) Capital commitments

	Group	
	2019 RM	2018 RM
Capital expenditure in respect of purchase of plant and equipment		
- Contracted but not provided for	577,000	1,860,185

(b) Operating lease commitments

The Group as lessee

The Group had entered into lease agreements for warehouse, premises, machineries and equipment resulting in future rental commitments.

The future minimum lease payment payable under the above non-cancellable operating leases and other non-cancellable operating leases of the Group contracted for as at the end of reporting period but recognised as payables, are as follows:

	Group	
	2019 RM	2018 RM
Not later than one (1) year	456,350	365,900
Later than one (1) year and not later than five (5) years	246,800	106,350
	703,150	472,250

21. COMMITMENTS (CONTINUED)

(b) Operating lease commitments (continued)

The Group as lessor

The Group had entered into non-cancellable lease agreements for premises renewable at the end of the lease period subject to an increase clause.

The Group has aggregate future minimum lease receivable as at the end of each reporting period as follows:

	Group	
	2019 RM	2018 RM
Not later than one (1) year	1,258,500	1,358,000
Later than one (1) year and not later than five (5) years	35,000	475,000
	1,293,500	1,833,000

22. CONTINGENT LIABILITIES

	Company	
Corporate guarantees - unsecured	2019 RM	2018 RM
In favour of banks for banking facilities granted to subsidiaries:		
- limit of guarantee	91,421,000	77,821,000
- amount utilised	69,586,210	55,550,662

The Directors are of the view that the fair value of such corporate guarantee is negligible as the chances of the financial institutions to call upon the corporate guarantee are remote.

23. REVENUE

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Revenue from contracts with customers				
Recognised at point in time:				
- Sale of goods	237,136,842	172,995,568	-	-
- Management services rendered	-	-	1,032,000	960,000
	237,136,842	172,995,568	1,032,000	960,000

24. PROFIT BEFORE TAXATION

Other than those disclosed elsewhere in the financial statements, the profit before taxation is arrived at:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
After charging:				
Auditors' remuneration:				
- statutory audit	138,000	138,000	32,000	32,000
- other services	5,000	5,000	5,000	5,000
Interest expenses on:				
- bank overdrafts	546,248	543,545	-	-
- bankers' acceptances	1,321,103	927,759	-	-
- hire purchase creditors	286,654	276,659	-	-
- term loans	2,006,324	1,224,054	-	-
Fair value adjustment on derivative financial instruments	-	59,035	-	-
Loss on foreign exchange				
- realised	161,728	299,312	-	-
- unrealised	102,692	-	-	-
And crediting:				
Fair value adjustment on derivative financial instruments	59,035	-	-	-
Gain on disposal of property, plant and equipment	100,938	117,806	-	-
Unrealised gain on foreign exchange	-	65,559	-	-
Interest income from deposits with licensed banks	3,959	22,060	95	-

25. TAXATION

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Current tax expense based on profit for the financial year:				
- Current year	4,662,699	2,232,537	73,317	46,528
- Under provision in prior years	24,560	19,067	-	4,849
	4,687,259	2,251,604	73,317	51,377
Deferred tax (Note 19)				
- Relating to origination and reversal of temporary differences	(79,432)	220,688	-	-
- (Over)/Under provision in prior years	(23,689)	232,704	-	-
	(103,121)	453,392	-	-
	4,584,138	2,704,996	73,317	51,377

25. TAXATION (CONTINUED)

The Malaysian income tax is calculated at the statutory tax rate of 24% (2018: 24%) of the estimated taxable profit for the fiscal year.

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by applicable tax rate of the Group and of the Company is as follows:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Profit before taxation	16,465,529	11,824,316	65,945	281,940
Tax at Malaysian tax rate of 24% (2018: 24%)	3,951,727	2,837,836	15,827	67,666
Tax effects in respect of:				
Deferred tax assets not recognised	256,202	-	-	-
Utilisation of deferred tax assets previously not recognised	-	(912,488)	-	-
Non-taxable income	(293,636)	(206,361)	-	(21,138)
Non-allowable expenses	668,974	1,190,412	57,490	-
Lower tax rate from increase in statutory business income*	-	(456,174)	-	-
	4,583,267	2,453,225	73,317	46,528
Under/(Over) provision in prior years				
- Income tax	24,560	19,067	-	4,849
- Deferred tax	(23,689)	232,704	-	-
	4,584,138	2,704,996	73,317	51,377

* The lower tax rate from increase in statutory business income was arising from the reduction in income tax rate that the Group benefited from higher chargeable income achieved as compared to previous financial year.

26. EARNINGS PER ORDINARY SHARE

(a) Basic earnings per ordinary share

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2019	2018
Profit attributable to equity holders of the parent (RM)	11,562,448	9,083,944
Weighted average number of ordinary shares in issue	240,000,000	240,000,000
Basic earnings per ordinary share (sen)	4.82	3.78

26. EARNINGS PER ORDINARY SHARE (CONTINUED)

(b) Diluted earnings per ordinary share

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares. The adjusted weighted average number of ordinary shares in issue and issuable has been arrived at based on the assumption that warrants are exercised at the beginning of the financial year.

	Group	
	2019	2018
Profit attributable to equity holders of the parent (RM)	11,562,448	9,083,944
Weighted average number of ordinary shares in issue	240,000,000	240,000,000
Effects of dilution due to warrants	33,200,723	19,791,232
Adjusted weighted average number of ordinary shares applicable to diluted earnings per share	273,200,723	259,791,232
Diluted earnings per ordinary share (sen)	4.23	3.50

27. EMPLOYEE BENEFITS

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Salaries, wages, bonuses and allowances	16,038,756	15,139,415	320,000	280,000
Contributions to defined contribution plan	805,315	753,235	36,000	33,600
Social security contribution	81,451	66,652	924	876
Other benefits	1,662,162	1,858,439	6,897	6,606
	18,587,684	17,817,741	363,821	321,082

Included in the employee benefits of the Group and of the Company are Directors' remuneration amounting to RM2,208,891 (2018: RM2,033,787) and RM343,821 (2018: RM321,082) respectively.

27. EMPLOYEE BENEFITS (CONTINUED)

(a) Directors' remuneration

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Directors of the Company				
Executive Directors:				
- salaries	1,440,000	1,440,000	240,000	240,000
- bonus	460,000	325,000	60,000	40,000
- others	239,517	217,268	43,821	41,082
- fees	21,600	21,600	21,600	21,600
	2,161,117	2,003,868	365,421	342,682
Estimated money value of benefits-in-kind	66,725	-	-	-
	2,227,842	2,003,868	365,421	342,682
Non-Executive Directors:				
- fees	358,200	335,500	358,200	335,500
- others	11,490	11,010	11,490	11,010
	369,690	346,510	369,690	346,510
Directors of the subsidiaries				
- salaries	60,000	45,000	-	-
- others	9,374	6,519	-	-
	69,374	51,519	-	-
Total	2,666,906	2,401,897	735,111	689,192

28. WARRANTS 2018/2023

On 28 March 2018, the Company issued 120,000,000 free warrants on the basis of one (1) warrant for every one (1) existing ordinary share. The warrants were listed on the Main Market of Bursa Malaysia Securities on 28 March 2018.

The warrants issued were constituted by the Deed Poll dated 5 March 2018.

Salient features of the Warrants are as follows:

(a) Each warrants entitles the registered holder at any time during the exercise period to subscribe for one new ordinary shares in the Company at an exercise price of RM0.40.

(b) The exercise price and/or the number of the warrants shall be subject to the adjustments under certain circumstances in accordance with the provision of the Deed Poll.

(c) The warrants may be exercised at any time within 5 years commencing on and including the date of issuance of the Warrants ending on the date falling immediately before the fifth (5th) anniversary of the date of issue of the Warrants, provided that if such day falls on a day which is not a market day, then it shall be the market day immediately preceding the said non-market day.

28. WARRANTS 2018/2023 (CONTINUED)

Salient features of the Warrants are as follows: (continued)

(d) All new ordinary shares arising from the exercise of the Warrants shall, upon allotment and issuance, rank pari passu in all respects with the then existing ordinary shares, save and except that such new ordinary shares shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid, the entitlement date of which is prior to the date of allotment and issuance of the new ordinary shares arising from the exercise of the Warrants.

(e) Any warrants not exercised during the exercise period will lapse and cease to be valid.

(f) No warrants were exercised since the date of issuance of the warrants and the total number of warrants that remain unexercised was 120,000,000.

29. RELATED PARTY DISCLOSURES

(a) Identities of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties could be individuals or other entities.

The Company has controlling related party relationship with its subsidiaries and company in which certain Directors have financial interests.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following transactions with the related parties during the financial year:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Subsidiaries				
Management fee received from:				
- Sern Kou Furniture Industries Sdn. Bhd.	-	-	504,000	480,000
- Valued Products (M) Sdn. Bhd.	-	-	264,000	240,000
- Souncern Timber Sdn. Bhd.	-	-	264,000	240,000
Related party				
Ecomate Sdn. Bhd.				
- Sales	-	92,203	-	-
- Purchases	17,990	-	-	-
- Rental income	290,000	181,500	-	-

Material balances with related parties at the end of reporting year are disclosed in Note 12 and Note 20 to the financial statements.

The related party transactions described above were carried out on terms and conditions agreed between the parties.

29. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) of the Group and the Company.

The remuneration of key management personnel during the financial year was as follows:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Basic salaries and bonus	2,466,054	2,276,702	320,000	280,000
Defined contribution plan	297,601	266,060	36,000	33,600
Social contribution	8,373	7,418	924	876
Others	18,387	17,616	18,387	17,616
	2,790,415	2,567,796	375,311	332,092
Fees	379,800	357,100	379,800	357,100
	3,170,215	2,924,896	755,111	689,192

30. OPERATING SEGMENTS

Sern Kou Resources Berhad and its subsidiaries are principally engaged in investment holding, providing management services, manufacturing of wooden furniture, manufacturing and processing of all kinds of timber, wood and related products, logging and processing of rubberwood and timber and manufacturing of plywood and related products.

Sern Kou Resources Berhad has arrived at three (3) reportable segments that are organised and managed separately according to the nature of products and services, specific expertise and technologies requirements, which requires different business and marketing strategies. The reportable segments are summarised as follows:

(i) Manufacturing

Manufacturing of wooden furniture and plywood.

(ii) Kiln-drying, lamination and sawmill

Manufacturing and processing of all kinds of timber.

(iii) Processing and trading

Processing and trading of rubberwood and timber logs, as well as sales of timber extraction rights.

Other operating segments that do not meet the quantitative threshold of an individual reportable segment comprise investment holding.

The accounting policies of operating segments are the same as those described in the summary of significant accounting policies.

30. OPERATING SEGMENTS (CONTINUED)

Segment performance is evaluated based on operating profit, excluding non-recurring losses, and in certain respect as explained in the table below, it is measured differently from operating profit in the consolidated financial statements.

Inter-segment revenue is priced along the same lines as sales to external customers and conditions and is eliminated on the consolidated financial statements. These policies have been applied constantly throughout the current and previous financial years.

Segment assets exclude tax assets and segment liabilities exclude tax liabilities. Even though loans and borrowings arise from financing activities rather than operating activities, they are allocated to the segments based on relevant factors (e.g. funding requirements). Details are provided in the reconciliations from segment assets and liabilities to the financial position of the Group.

Group 2019	Manufacturing RM	Kiln-drying, lamination and sawmill RM	Processing and trading RM	Others RM	Total RM
Revenue					
Total revenue	67,338,744	147,703,203	30,835,564	1,032,000	246,909,511
Inter-segment revenue	(117,587)	(1,132,873)	(7,490,209)	(1,032,000)	(9,772,669)
Revenue from external customers	67,221,157	146,570,330	23,345,355	-	237,136,842
Interest income	3,721	143	-	95	3,959
Interest expense	(840,050)	(2,290,400)	(1,029,879)	-	(4,160,329)
Net interest expense	(836,329)	(2,290,257)	(1,029,879)	95	(4,156,370)
Segment (loss)/profit before income taxation	(1,459,473)	13,418,469	4,441,088	65,445	16,465,529
Segment assets	49,518,665	96,052,858	42,651,387	189,918	188,412,828
Segment liabilities	23,917,937	59,052,550	14,951,357	125,404	98,047,248
Other information					
Gain on disposal of property, plant and equipment	10,148	90,790	-	-	100,938
Inventories written down	(53,741)	-	-	-	(53,741)
Impairment loss on trade receivables	(99,000)	(130,000)	-	-	(229,000)
Property, plant and equipment written off	(107,848)	-	-	-	(107,848)
Depreciation of :					
- investment property	-	(66,832)	-	-	(66,832)
- property, plant and equipment	(1,083,198)	(2,009,985)	(215,321)	-	(3,308,504)
Additions to non-current assets other than financial instruments and deferred tax assets	2,730,011	1,693,406	594,228	-	5,017,645

30. OPERATING SEGMENTS (CONTINUED)

Group 2018	Manufacturing RM	Kiln-drying, lamination and sawmill RM	Processing and trading RM	Others RM	Total RM
Revenue					
Total revenue	58,411,210	95,969,429	32,964,336	960,000	188,304,975
Inter-segment revenue	(626,041)	(2,433,289)	(11,290,077)	(960,000)	(15,309,407)
Revenue from external customers	57,785,169	93,536,140	21,674,259	-	172,995,568
Interest income	22,035	25	-	-	22,060
Interest expense	(763,851)	(1,806,255)	(401,911)	-	(2,972,017)
Net interest expense	(741,816)	(1,806,230)	(401,911)	-	(2,949,957)
Segment (loss)/profit before income taxation	(1,721,794)	5,594,708	7,672,462	278,940	11,824,316
Segment assets	48,989,824	67,644,631	34,755,447	295,885	151,685,787
Segment liabilities	21,696,670	41,314,403	9,631,620	108,532	72,751,225
Other information					
Gain on disposal of property, plant and equipment	87,660	17,430	12,716	-	117,806
Inventories written down	(49,583)	-	-	-	(49,583)
Depreciation of :					
- investment property	-	(66,832)	-	-	(66,832)
- property, plant and equipment	(1,015,801)	(1,703,597)	(135,441)	-	(2,854,839)
Additions to non-current assets other than financial instruments and deferred tax assets	1,329,471	5,161,020	-	-	6,490,491

30. OPERATING SEGMENTS (CONTINUED)

(a) Reconciliations of reportable profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

	2019 RM	2018 RM
Profit for the financial year		
Total profit for reportable segments	16,465,529	11,824,316
Taxation	(4,584,138)	(2,704,996)
Profit for the financial year of the Group per consolidated statement of profit or loss and other comprehensive income	11,881,391	9,119,320
Assets		
Total assets for reportable segments	188,412,828	151,685,787
Current tax assets	930,788	262,868
Assets of the Group per consolidated statement of financial position	189,343,616	151,948,655
Liabilities		
Total liabilities for reportable segments	98,047,248	72,751,225
Deferred tax liabilities	1,120,264	1,223,385
Current tax liabilities	1,880,541	1,561,098
Liabilities of the Group per consolidated statement of financial position	101,048,053	75,535,708

(b) Geographical segments

The revenue disclosed in geographical segments is based on the geographical location of its customers. The following table provides an analysis of the Group's revenue by geographical segments:

	Group	
Revenue from external customers	**2019 RM**	**2018 RM**
Africa	1,130,806	940,154
Australia	321,159	798,092
Malaysia	188,742,072	129,256,379
Singapore	1,267,394	1,128,508
United States of America and European countries	16,201,194	18,223,656
Other Asia-Pacific countries	29,474,217	22,648,779
	237,136,842	172,995,568

(c) Major customers

Revenue from a customer from sales of products represent approximately RM33,235,016 (2018: RM25,765,398) of the Group revenue with whom the Group transacted ten percent (10%) or more of its revenue during the financial year.

31. FINANCIAL INSTRUMENTS

(a) Capital management

The primary objective of the capital management of the Group is to ensure that entities of the Group would be able to continue as a going concern whilst maximising return to shareholders through the optimisation of the debt and equity ratios. The overall strategy of the Group remains unchanged from the financial year ended 30 June 2018.

The Group manages its capital structure and makes adjustments to it, as deemed appropriate. In order to maintain or adjust the capital structure, the Group may adjust the dividend payout to shareholders, issue new ordinary shares and redeem debts where necessary, from time to time. No changes were made in the objectives, policies or processes during the financial years ended 30 June 2019 and 30 June 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and bank balances. Capital represents equity attributable to the owners of the parent.

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Borrowings	72,876,897	59,191,023	-	-
Trade and other payables	25,170,351	13,501,167	1,225,404	1,408,532
	98,047,248	72,692,190	1,225,404	1,408,532
Less:				
Cash and bank balances	(11,919,327)	(16,361,881)	(144,237)	(258,166)
Net debt	86,127,921	56,330,309	1,081,167	1,150,366
Equity attributable to owners of the parent	87,198,916	75,636,468	61,885,523	61,892,895
Capital and net debt	173,326,837	131,966,777	62,966,690	63,043,261
Debt ratio	50%	43%	2%	2%

Pursuant to the requirements of Practice Note No. 17/2005 of the Bursa Malaysia Securities Berhad, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the twenty-five percent (25%) of the issued and paid-up capital (excluding treasury shares, if any) and such shareholders' equity is not less than RM40,000,000. The Group has complied with this requirement for the financial year ended 30 June 2019.

31. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments

Categories of financial instruments

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Financial assets				
Amortised cost/Loans and receivables				
Trade and other receivables, net of prepayments	70,957,375	40,065,872	22,295	23,697
Cash and bank balances	11,919,327	16,361,881	144,237	258,166
	82,876,702	56,427,753	166,532	281,863
Financial liabilities				
Amortised cost/Other financial liabilities				
Trade and other payables	25,170,351	13,501,167	1,225,404	1,408,532
Borrowings	72,876,897	59,191,023	-	-
	98,047,248	72,692,190	1,225,404	1,408,532
Fair value through profit or loss				
Derivative financial liabilities	-	59,035	-	-

(c) Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

(i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amounts of financial assets and liabilities, such as trade and other receivables, trade and other payables and floating rate borrowings, are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

The carrying amounts of the current portion of borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

(ii) Hire purchase creditors

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of each reporting period.

31. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value hierarchy

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables set out the financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position:

	Fair value of financial instruments not carried at fair value					
2019 Group	**Level 1 RM**	**Level 2 RM**	**Level 3 RM**	**Total RM**	**Total fair value RM**	**Carrying amount RM**
Financial liability						
- Hire purchase creditors	-	3,375,860	-	3,375,860	3,375,860	3,445,687
2018 Group						
Financial liability						
- Hire purchase creditors	-	3,879,878	-	3,879,878	3,879,878	4,022,361

During the reporting years ended 30 June 2019 and 30 June 2018, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial risk management objective of the Group is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in foreign currency exchange and interest rates and the unpredictability of the financial markets.

The Group operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Group financial risk management policies. The Group is exposed mainly to credit risk, foreign currency risk, liquidity and cash flow risk as well as interest rate risk. Information on the management of the related exposures is detailed below:

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk, which requires the loss to be recognised if a counter party fails to perform as contracted. Credit risk refers to the risk that counterparty would default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group's exposure and the creditworthiness of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by the counterparty limits that are reviewed and approved by management annually.

Exposure to credit risk

At the end of each reporting period, the maximum exposure of the Group to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Credit risk concentration profile

The Group determines concentration of credit risk by identifying and monitoring any significant long outstanding balance owing by any major customer or counter party on an on-going basis.

At the end of the reporting period, approximately 54% (2018: 62%) of the Group's gross trade receivables were due from five (5) (2018: five (5)) major customers.

The Company does not have any significant concentration of credit risk at the end of the reporting period.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign exchange risk on sales that are denominated in foreign currencies.

The Group also holds cash and bank balances denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances of RM1,297,376 (2018: RM1,967,499) for the Group.

The foreign currency in which these transactions are denominated are mainly United States Dollar ('USD') and Chinese Yuan ('CNY'). The Group manages its transactional currency exposures by matching as far as possible, its receipts and payments in each individual currency. The Group monitors the foreign currency exchange rates closely so as to minimise the potential material adverse effects from these exposures in a timely manner.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Foreign currency risk (continued)

The following table demonstrates the sensitivity of the Group's profit after tax to a reasonably possible change in the United States Dollar ('USD') and Chinese Yuan ('CNY') against the Ringgit Malaysia ('RM'), with all other variables held constant.

Profit after tax		Group 2019 RM	Group 2018 RM
USD/RM	- Strengthen by 10% (2018: 10%)	304,000	313,000
	- Weaken by 10% (2018: 10%)	(304,000)	(313,000)
CNY/RM	- Strengthen by 10% (2018: 10%)	248,000	116,000
	- Weaken by 10% (2018: 10%)	(248,000)	(116,000)

(c) Liquidity and cash flow risks

Liquidity risk is the risk that the Group is unable to service its cash obligations in the future. To mitigate this risk, the management measures and forecasts its cash commitments, monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

2019 Group	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
Financial liabilities				
Trade and other payables	25,170,351	-	-	25,170,351
Borrowings	56,216,819	12,106,822	11,038,749	79,362,390
Total undiscounted financial liabilities	81,387,170	12,106,822	11,038,749	104,532,741
Company				
Financial liabilities				
Other payables	1,225,404	-	-	1,225,404
Financial guarantees*	91,421,000	-	-	91,421,000
Total undiscounted financial liabilities	92,646,404	-	-	92,646,404

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity and cash flow risks (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2018 Group	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
Financial liabilities				
Trade and other payables	13,501,167	-	-	13,501,167
Borrowings	41,054,349	12,236,698	13,739,615	67,030,662
Total undiscounted financial liabilities	54,555,516	12,236,698	13,739,615	80,531,829
Company				
Financial liabilities				
Other payables	1,408,532	-	-	1,408,532
Financial guarantees*	77,821,000	-	-	77,821,000
Total undiscounted financial liabilities	79,229,532	-	-	79,229,532

* This disclosure represents the maximum liquidity risk exposure.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments would fluctuate because of changes in market interest rates.

The Group's exposure to market risk for changes in interest rates relates primarily to the interest-bearing borrowings. The Group does not use derivative financial instruments to hedge its risk.

The following tables set out the carrying amounts, the average effective interest rates as at the end of the reporting period and the remaining maturities of the Group's and the Company's financial instruments that are exposed to interest rate risk:

As at 30 June 2019 Group	Note	Weighted average effective interest rate %	Within 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	More than 5 years RM	Total RM
Fixed rates									
Bankers' acceptances	16	4.98	(31,524,613)	-	-	-	-	-	(31,524,613)
Hire purchase creditors	18	6.20	(2,302,277)	(1,025,938)	(117,472)	-	-	-	(3,445,687)
Floating rates									
Bank overdrafts	16	7.86	(6,422,533)	-	-	-	-	-	(6,422,533)
Term loans	17	6.99	(14,236,230)	(2,910,477)	(1,628,985)	(1,731,581)	(1,840,111)	(9,136,680)	(31,484,064)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Interest rate risk (continued)

As at 30 June 2018 Group	Note	Weighted average effective interest rate %	Within 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	More than 5 years RM	Total RM
Fixed rates									
Bankers' acceptances	16	4.80	(20,177,150)	-	-	-	-	-	(20,177,150)
Hire purchase creditors	18	6.32	(2,078,147)	(1,630,288)	(313,926)	-	-	-	(4,022,361)
Floating rates									
Bank overdrafts	16	7.75	(7,407,273)	-	-	-	-	-	(7,407,273)
Term loans	17	6.85	(9,625,024)	(2,074,943)	(1,494,948)	(1,592,789)	(1,697,489)	(11,099,046)	(27,584,239)

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity analysis of the Group if interest rates at the end of each reporting period changed by one hundred (100) basis points with all other variables held constant:

	Group	
Profit after tax	**2019 RM**	**2018 RM**
- Increase by 1% (2018: 1%)	(288,000)	(266,000)
- Decrease by 1% (2018: 1%)	288,000	266,000

List Of Properties

REGISTERED OWNER	LOCATION	DESCRIPTION/ EXISTING USE	DATE OF CERTIFICATE OF FITNESS/ YEAR OF ACQUISITION	APPROXIMATE AGE OF BUILDING YEARS/ TENURE	LAND/AREA BUILT-UP AREA SQ.FT.	AUDITED NET BOOK VALUE AS AT 30 JUNE 2019 RM '000
SK	HSD 31653, PTD 4448 Mukim Parit Bakar District of Muar Johor Darul Takzim	Double storey factory building/ Factory building	18 March 2006	14 years/ Freehold	104,400 sq. ft./ 100,800 sq. ft.	4,474
SKFI	Lot 8804, PN 9630 Mukim Jalan Bakri District of Muar Jalan Perindustrian 1 Kawasan Perindustrian Bukit Bakri, Mukim Bakri 84200 Muar Johor Darul Takzim	Single storey factory building with double storey office annexe/ Factory and office building	19 November 2001	19 years/ 99 years leasehold expiring on 29 December 2094	88,146 sq. ft./ 58,600 sq. ft.	2,148
SKFI	Lot 8805, PN 9631 Mukim Jalan Bakri District of Muar Jalan Perindustrian 1 Kawasan Perindustrian Bukit Bakri, Mukim Bakri 84200 Muar Johor Darul Takzim	Single storey factory building/ Factory	23 November 2001	19 years/ 99 years leasehold expiring on 29 December 2094	96,068 sq. ft./ 69,720 sq. ft.	2,824
SKFI	HSD 31652, PTD 4447 Mukim Parit Bakar District of Muar Johor Darul Takzim	Single storey factory building with double storey office building	7 December 2006	8 years/ Freehold	112,195 sq. ft/ 69,653 sq. ft	7,055
ST	Lot Nos.1052 and 11652 GM1138 and 844 Mukim of Serom District of Muar State of Johor	3 Sawnmill, workshop, office cum store building, worker's quarters	20 August 2006	13 years/ Freehold	248,883 sq. ft./ 21,676 sq. ft.	2,408
VPM	PTD 9765, HSD 20278 Mukim Jorak District of Muar PLO 19, Jalan Kempas 2 Pagoh Industrial Estate Pagoh, Muar Johor Darul Takzim	3 factory buildings, double storey office block and other ancillary buildings	21 February 1995	25 years/ 60 years leasehold expiring on 26 June 2055	188,605 sq. ft./ 96,194 sq. ft.	2,335
VPM	Lot 8789, PN 9612 Mukim Jalan Bakri District of Muar Kawasan Perindustrian Bukit Bakri Jalan Perindustrian 5 Mukim Bakri 84200 Muar Johor Darul Takzim	Single storey factory building with double storey office annexe/ Factory and office building	1 March 1999	21 years/ 99 years leasehold expiring on 29 December 2094	87,450 sq. ft./ 56,480 sq. ft.	2,132

List Of Properties

REGISTERED OWNER	LOCATION	DESCRIPTION/ EXISTING USE	DATE OF CERTIFICATE OF FITNESS/ YEAR OF ACQUISITION	APPROXIMATE AGE OF BUILDING YEARS/ TENURE	LAND/AREA BUILT-UP AREA SQ.FT.	AUDITED NET BOOK VALUE AS AT 30 JUNE 2019 RM '000
VPM	Lot 8803, PN 9626 Mukim Jalan Bakri District of Muar Kawasan Perindustrian Bukit Bakri Jalan Perindustrian 1 Mukim Bakri 84200 Muar Johor Darul Takzim	Single storey factory building/ Factory building	8 March 2001	19 years/ 99 years leasehold expiring on 29 December 2094	88,146 sq. ft./ 50,580 sq. ft.	2,173
VPM	Lot 1663, Kawasan Perindustrian Staponal Jalan Kuala Krai 18000 Kuala Krai Kelantan Darul Naim	Sawnmill building, store, kiln dry and timer store, workers' quarters	5 October 2016	4 years Freehold	1,240,002 sq.ft./ 257,476 sq.ft.	11,103
VPM	Lot Nos.148-154 Kawasan Perindustrian Gua Musang 18300 Gua Musang Kelantan Darul Naim	Sawmill complex	22 June 2017	3 years/ 99 years leasehold expiring on 20 November 2100	733,872 sq.ft./ 181,732 sq.ft.	15,130

Analysis Of Shareholdings

As At 19 September 2019

Issued and Paid-Up Share Capital	: RM60,000,000 comprising 240,000,000 ordinary shares
Class of Shares	: Ordinary shares
Voting Rights	: Every member of the Company, present in person or by proxy, shall have on a show of hands, one (1) vote or on a poll, one (1) vote for each share held
Number of shareholders	: 1,165

ANALYSIS OF SHAREHOLDINGS

Holdings	No. of holders	Total holdings	Percentage (%)
1 - 99	248	13,698	0.01
100 - 1,000	150	36,908	0.02
1,001 - 10,000	388	1,765,592	0.73
10,001 - 100,000	266	9,309,642	3.88
100,001 – 11,999,999[1]	109	168,081,830	70.03
12,000,000[2] and above	4	60,792,330	25.33
TOTAL	**1,165**	**240,000,000**	**100.00**

Notes:

1 Less than 5% of issued shares

2 5% and above of issued shares

SUBSTANTIAL SHAREHOLDERS ACCORDING TO THE REGISTER OF SUBSTANTIAL SHAREHOLDERS (HOLDING 5% OR MORE OF THE SHARE CAPITAL)

Shareholders	Direct		Indirect	
	No. of shares	%	No. of shares	%
Genius Success Capital Sdn. Bhd.	48,000,000	20.00	-	-
Low Peng Sian @ Chua Peng Sian	30,940,200	12.89	48,000,000[1]	20.00
Koh Poh Seng	24,915,900	10.38	-	-
Koh Kun Chuan	12,200,430	5.08	-	-

Notes:

1 Substantial interest and deemed interested by virtue of shares held in Genius Success Capital Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.

Analysis Of Shareholdings

As At 19 September 2019

LIST OF THIRTY (30) LARGEST REGISTERED SHAREHOLDERS

	Name	No. of shares held	Percentage (%)
1.	Koh Poh Seng	18,591,900	7.75
2.	Maybank Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Genius Success Capital Sdn. Bhd.*	16,000,000	6.67
3.	Affin Hwang Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Genius Success Capital Sdn. Bhd.*	14,000,000	5.83
4.	Koh Kun Chuan	12,200,430	5.08
5.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Tan Chee Meng (REM 166)*	10,485,600	4.37
6.	Genius Success Capital Sdn. Bhd.	10,000,000	4.17
7.	Tung Beng Lee	8,780,000	3.66
8.	MIDF Amanah Investment Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Genius Success Capital Sdn. Bhd. (MGN-LPS0005M)*	8,000,000	3.33
9.	HLIB Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian (MG0195-166)*	7,540,000	3.14
10.	RHB Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian*	7,200,000	3.00
11.	Ambank (M) Berhad *Pledged Securities Account for Tiew Huat Seng (SMART)*	6,888,000	2.87
12.	Affin Hwang Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian*	6,000,000	2.50
13.	Maybank Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Ng Hian Seng*	5,356,400	2.23
14.	RHB Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Koh Poh Seng*	4,200,000	1.75
15.	See Chioh Lean	4,163,000	1.73
16.	TA Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Tiew Huat Seng*	4,124,200	1.72
17.	TA Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Goh Chee Ann*	4,019,600	1.67
18.	See Chioh Lean	3,946,200	1.64
19.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian (7004588)*	3,900,000	1.63
20.	Tan Lee Chu	3,836,600	1.60
21.	Lee Chye Koon	3,596,200	1.50

LIST OF THIRTY (30) LARGEST REGISTERED SHAREHOLDERS

	Name	No. of shares held	Percentage (%)
22.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Wee Tiew Toon (8048870)*	3,539,800	1.47
23.	Ambank (M) Berhad *Pledged Securities Account for Cheong Kok Tong (SMART)*	2,971,800	1.24
24.	TA Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Koo Chew Fong*	2,796,200	1.17
25.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Ng Hian Chan (7002544)*	2,760,600	1.15
26.	Ambank (M) Berhad *Pledged Securities Account for Ang Jin Keong (SMART)*	2,543,600	1.06
27.	MIDF Amanah Investment Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian (MGN-LPS0005M)*	2,540,000	1.06
28.	Tew Beng Tee	2,223,000	0.93
29.	Public Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Koh Poh Seng (E-KLC)*	2,124,000	0.89
30.	RHB Capital Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Tan Lee Chu (CEB)*	2,111,200	0.88
	Total	**186,438,330**	**77.69**

DIRECTORS' SHAREHOLDINGS ACCORDING TO THE REGISTER OF DIRECTORS' SHAREHOLDINGS

	Direct		Indirect	
	No. of shares	%	No. of shares	%
Tan Sri Abdul Rahim Bin Mohd Noor	-	-	-	-
Koh Kun Chuan	12,200,430	5.08	-	-
Low Peng Sian @ Chua Peng Sian	30,940,200	12.89	48,000,000[1]	20.00
YBhg Datuk Dr Haris Bin Haji Salleh	-	-	-	-
Datuk Tay Puay Chuan	-	-	-	-
Dr Tan Chee Huat	-	-	-	-
Leou Thiam Lai	-	-	-	-
Loo Eng Hua	200,000	0.08	-	-
Lee Shen Wang	-	-	-	-

Notes:

[1] Substantial interest and deemed interested by virtue of shares held in Genius Success Capital Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.

Analysis Of Warrant Holdings

As At 19 September 2019

Type of Securities	: Warrants 2018/2023
Total Number of Warrants Issued	: 120,000,000
Exercise Price	: RM0.40 per warrant
Voting Rights	: The holder of warrants is not entitled to any voting rights.
Number of Warrant Holders	: 1,014

ANALYSIS OF WARRANT HOLDINGS

Holdings	No. of holders	Total holdings	Percentage (%)
1 - 99	356	14,073	0.01
100 - 1,000	66	34,197	0.03
1,001 - 10,000	374	1,290,520	1.07
10,001 - 100,000	139	4,760,896	3.97
100,001 – 5,999,999[1]	75	84,600,099	70.50
6,000,000[2] and above	4	29,300,215	24.42
TOTAL	**1,014**	**120,000,000**	**100.000**

Notes:
[1] Less than 5% of issued warrants
[2] 5% and above of issued warrants

LIST OF THIRTY (30) LARGEST REGISTERED WARRANT HOLDERS

	Name	No. of warrant held	Percentage (%)
1.	Maybank Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Genius Success Capital Sdn. Bhd.*	9,000,000	7.50
2.	RHB Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian*	7,200,000	6.00
3.	Affin Hwang Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Genius Success Capital Sdn. Bhd.*	7,000,000	5.83
4.	Koh Kun Chuan	6,100,215	5.08
5.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Tan Chee Meng (REM 166)*	5,242,800	4.37
6.	Su Ming Yaw	5,000,000	4.17
7.	Affin Hwang Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian*	4,907,500	4.09

Analysis Of Warrant Holdings

As At 19 September 2019

LIST OF THIRTY (30) LARGEST REGISTERED WARRANT HOLDERS

	Name	No. of warrant held	Percentage (%)
8.	Tung Beng Lee	4,390,000	3.66
9.	Genius Success Capital Sdn. Bhd.	4,000,000	3.33
10.	MIDF Amanah Investment Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Genius Success Capital Sdn. Bhd. (MGN-LPS0005M)*	4,000,000	3.33
11.	HLIB Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Low Peng Sian @ Chua Peng Sian (MG0195-166)*	3,770,000	3.14
12.	Ambank (M) Berhad *Pledged Securities Account for Tiew Huat Seng (SMART)*	3,444,000	2.87
13.	Ambank (M) Berhad *Pledged Securities Account for Goh Chee Ann (SMART)*	2,850,400	2.38
14.	Ang Chyau Chin	2,703,400	2.25
15.	Maybank Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Ng Hian Seng*	2,678,200	2.23
16.	See Chioh Lean	2,081,500	1.73
17.	TA Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Goh Chee Ann*	2,007,800	1.67
18.	TA Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Tiew Huat Seng*	1,997,100	1.66
19.	See Chioh Lean	1,973,100	1.64
20.	Tan Lee Chu	1,918,300	1.60
21.	Low Peng Sian @ Chua Peng Sian	1,840,000	1.53
22.	Lee Chye Koon	1,798,100	1.50
23.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Wee Tiew Toon (8048870)*	1,769,900	1.47
24.	Ambank (M) Berhad *Pledged Securities Account for Ang Jin Keong (SMART)*	1,477,800	1.23
25.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Ng Hian Chan (7002544)*	1,380,300	1.15
26.	TA Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Koo Chew Fong*	1,260,600	1.05
27.	Tew Beng Tee	1,111,500	0.93

Analysis Of Warrant Holdings

As At 19 September 2019

LIST OF THIRTY (30) LARGEST REGISTERED WARRANT HOLDERS

	Name	No. of warrant held	Percentage (%)
28.	RHB Capital Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Tan Lee Chu (CEB)*	1,055,600	0.88
29.	TA Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Ng Hian Seng*	925,800	0.77
30.	Amsec Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account For Loo Yeng Soon*	855,500	0.71
	Total	**95,739,415**	**79.75**

DIRECTORS' WARRANT HOLDINGS ACCORDING TO THE REGISTER OF DIRECTORS' SHAREHOLDINGS

	Direct		Indirect	
	No. of warrants	%	No. of warrants	%
Tan Sri Abdul Rahim Bin Mohd Noor	-	-	-	-
Koh Kun Chuan	6,100,215	5.08	-	-
Low Peng Sian @ Chua Peng Sian	19,900,900	16.58	24,000,000[1]	20.00
YBhg Datuk Dr Haris Bin Haji Salleh	-	-	-	-
Datuk Tay Puay Chuan	-	-	-	-
Dr Tan Chee Huat	-	-	-	-
Leou Thiam Lai	-	-	-	-
Loo Eng Hua	100,000	0.08	-	-
Lee Shen Wang	-	-	-	-

Notes:

[1] Substantial interest and deemed interested by virtue of shares held in Genius Success Capital Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.

SERN KOU RESOURCES BERHAD
[Registration No. 200001016496 (519103-X)]
(Incorporated in Malaysia)

Proxy Form

Number Of Shares Held	
CDS Account No.	

* I/We _____

of _____

being a Member/Members of SERN KOU RESOURCES BERHAD [Registration No. 200001016496 (519103-X)], hereby appoint

_____ of _____

_____ or failing him/her _____ of

_____ or # THE CHAIRMAN OF THE MEETING as *my/our proxy to vote for *me/us on *my/our behalf at the Nineteenth Annual General Meeting of the Company to be held at Level 2, Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1, Kawasan Perindustrian Bukit Bakri, Mukim Bakri, 84200 Muar, Johor Darul Takzim on Tuesday, 26 November 2019 at 11.00 a.m. or at any adjournment thereof and to vote as indicated below :-

Ordinary Resolutions			**For**	**Against**
1	To re-elect Tan Sri Abdul Rahim Bin Mohd Noor as Director	(Ordinary Resolution 1)		
2	To re-elect Datuk Tay Puay Chuan as Director	(Ordinary Resolution 2)		
3	To re-elect Dr Tan Chee Huat as Director	(Ordinary Resolution 3)		
4	To re-elect Mr Lee Shen Wang as Director	(Ordinary Resolution 4)		
5	To approve the payment of Directors' fees for the financial year ended 30 June 2019	(Ordinary Resolution 5)		
6	To approve the payment of Directors' Remuneration (excluding Directors' Fees) payable to the Board of the Company and its subsidiaries up to an amount of RM18,751.50 for financial period from 1 December 2019 until 30 November 2020	(Ordinary Resolution 6)		
7	To appoint Messrs BDO PLT as Auditors of the Company	(Ordinary Resolution 7)		
8	To approve Proposed Authority to Issue Shares	(Ordinary Resolution 8)		
9	Continuing in office as an Independent Non-Executive Director – Tan Sri Abdul Rahim Bin Mohd Noor	(Ordinary Resolution 9)		
10	Continuing in office as an Independent Non-Executive Director – YBhg Datuk Dr Haris Bin Haji Salleh	(Ordinary Resolution 10)		
11	Continuing in office as an Independent Non-Executive Director– Datuk Tay Puay Chuan	(Ordinary Resolution 11)		
12	Continuing in office as an Independent Non-Executive Director - Dr Tan Chee Huat	(Ordinary Resolution 12)		
13	Continuing in office as an Independent Non-Executive Director – Mr Leou Thiam Lai	(Ordinary Resolution 13)		
Special Resolution				
1	Proposed Adoption of New Constitution of the Company	(Special Resolution 1)		

Please indicate with an "X" in the space provided above on how you wish to cast your vote. In the absence of specific directions, your Proxy may vote or abstain at his/her discretion.

\# *If you wish to appoint other person(s) to be your proxy/proxies, kindly delete the words "The Chairman of the Meeting" and insert the name(s) of the person(s) desired.*

* *Delete if not applicable.*

The proportions of our shareholding to be represented by my/our proxies (if more than 1 proxy) are as follows:-

First proxy	%
Second proxy	%
	100%

Dated this..... day of 2019

.....
Signature / Common Seal of member

Notes:

(1) A member may appoint only one (1) proxy to attend on the same occasion. A proxy may but need not be a member of the Company. If the proxy is not a member, he need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies. There shall be no restriction as to the qualification of the proxy.

(2) Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 it may appoint only one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

(3) Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities accounts ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. If a Member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his holding to be represented by each proxy.

(4) The instrument appointing a proxy shall be in writing executed under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.

(5) The instrument appointing a proxy, with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power or authority, shall be deposited at the Registered Office of the Company at Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1, Kawasan Perindustrian Bukit Bakri, Mukim Bakri, 84200 Muar, Johor Darul Takzim not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting as the case may be.

(6) The Date of Record of Depositors for the purpose of determining Members' entitlement to attend, vote and speak at the Meeting is 19 November 2019.

Fold here

Affix
Stamp
here

The Company Secretary

SERN KOU RESOURCES BERHAD
[Registration No. 200001016496 (519103-X)]

Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1,
Kawasan Perindustrian Bukit Bakri, Mukim Bakri,
84200 Muar, Johor Darul Takzim.

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SERN KOU RESOURCES BERHAD
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Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1,
Kawasan Perindustrian Bukit Bakri,
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