

**A. EXPLANATORY NOTES**

**A1. Basis of Preparation**

The interim financial statements of the Group are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standard (“MFRS”) 134, *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2022. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 30 June 2022.

**A2. Accounting Policies**

The accounting policies and presentation adopted for this interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2022, except for the adoption of the following new MFRS, Amendments to MFRSs and Annual Improvement to MFRS.

**a) New MFRS adopted during the financial year**

On 1 July 2022, the Group adopted the following Standard and Amendments to the Standards that are mandatory for annual financial periods beginning on or after 1 January 2022:

<u>Title</u>	<u>Effective Date</u>
Annual Improvements to MFRS Standards 2018 - 2020	1 January 2022
Amendments to MFRS 3 <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to MFRS 116 <i>Property, Plant and Equipment - Proceeds before Intended Use</i>	1 January 2022
Amendments to MFRS 137 <i>Onerous Contracts - Cost of Fulfilling a Contract</i>	1 January 2022

Adoption of the above standard and Amendments does not have any material impact on the financial statements of the Group.

**b) New MFRSs that have been issued, but only effective for annual financial periods beginning on or after 1 January 2023:**

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

<u>Title</u>	<u>Effective Date</u>
Amendments to MFRS 101 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
MFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to MFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to MFRS 17 <i>Initial Application of MFRS 17 and MFRS 9 - Comparative Information</i>	1 January 2023
Amendments to MFRS 101 <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to MFRS 108 <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to MFRS 112 <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to MFRS 10 and MFRS 128 <i>Sales or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The Group is in the process of assessing the impact of implementing these Standard and Amendments, since the effects would only be observable in future financial years.

**SERN KOU RESOURCES BERHAD**

Registration No. 200001016496 (519103-X)

SECOND QUARTER ENDED 31 DECEMBER 2022

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

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

**A4. Seasonality or Cyclicity Factors**

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

**A5. Unusual Items affecting the assets, liabilities, equity, net income or cash flow during the financial period**

A fire incident occurred on 16 December 2022 at one of the three manufacturing plants of Sern Kou Furniture Industries Sdn. Bhd. ("SKFI"), a wholly owned subsidiary. The damages sustained from the fire incident were restricted to one block of furniture factory. Other manufacturing plants and production facilities were not affected and production activities were running as normal.

The damages to the factory building, machinery and equipment and inventories were recorded at approximately RM6 million. SKFI has adequate insurance coverage for the damages.

SKFI has mitigated the production disruption arising from the incident by using spraying lines as well as increasing production hours in another manufacturing plant located within the same district as the affected factory plant and collaboration with sub-contractors in order to compensate the loss in capacity.

A Business Recovery Plan ("BRP") has been developed in order to ensure minimum interruption to operations and to resume production capabilities within the shortest time frame. The BRP consist of rebuilding of factory building, purchase of machinery and equipment and raw materials and reproduction of the affected inventories.

SKFI has been working closely with the loss adjusters to expedite progressive claim and payment. In regard, no insurance claim income has been recognised during the financial period under review pending response from the insurance company.

**A6. Changes in Estimates**

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

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

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

**A8. Dividend**

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

**A9. Segmental and Geographical Reporting**

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

Business Segment	Manufacturing and Trading of Furniture RM'000	Processing and Trading of Wood	Investment Holding RM'000	Inter-Company Elimination RM'000	Total RM'000
		RM'000			
<u>31-Dec-22</u>					
<b>Revenue</b>					
External revenue	25,533	169,694	-	-	195,227
Inter-segment revenue	223	1,811	990	(3,024)	-
	25,756	171,505	990	(3,024)	195,227
<b>Results</b>					
(Loss)/Profit before taxation	(9,397)	7,120	187	-	(2,090)
Taxation	(23)	(2,185)	(110)	-	(2,318)
(Loss)/Profit after taxation	(9,420)	4,935	77	-	(4,408)
<u>31-Dec-21</u>					
<b>Revenue</b>					
External revenue	22,882	135,798	-	-	158,680
Inter-segment revenue	114	1,287	900	(2,301)	-
	22,996	137,085	900	(2,301)	158,680
<b>Results</b>					
(Loss)/Profit before taxation	(2,934)	10,603	205	-	7,874
Taxation	(31)	(2,295)	(64)	-	(2,390)
(Loss)/Profit after taxation	(2,965)	8,308	141	-	5,484

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

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

Revaluation surplus of RM3.7 million was impaired and reversed as the result of fire incident as mentioned in Note A5.

**A11. Material Subsequent Events**

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

**A12. Changes in the Composition of the Group**

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

**A13. Contingent Liabilities**

Since the last annual statement of financial position as at 30 June 2022, there were no material changes in contingent liabilities for the Group as at the date of this report. The changes in contingent liabilities of the Company are as follows:

	As at 31-Dec-22 RM'000	As at 31-Dec-21 RM'000
<b><u>Contingent Liabilities</u></b>		
Corporate guarantees given to licensed banks for banking facilities granted to subsidiaries - utilised	<u>68,282</u>	<u>66,777</u>

**A14. Capital commitments**

There were no material capital commitments for the Group at the end of the current financial quarter.

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

**B1. Review of Performance**

Financial review for current quarter compared with preceding year corresponding quarter

	Individual Quarter		(Amount/ %)
	Current Year Quarter	Preceding Year Quarter	
	31-Dec-22	31-Dec-21	
	RM'000	RM'000	
Revenue	83,193	80,719	2,474 3%
Loss of Inventories due to Fire	(3,515)	-	(3,515) 100%
Operating Profit	999	8,441	(7,442) -88%
(Loss)/Profit Before Interest and Taxation	(4,444)	5,906	(10,350) -175%
(Loss)/Profit Before Taxation	(5,291)	5,261	(10,552) -201%
(Loss)/Profit After Taxation	(6,450)	4,016	(10,466) -261%
(Loss)/Profit attributable to Owners of the Company	(6,604)	3,613	(10,217) -283%

**B1. Review of Performance - Continued**

Financial review for current quarter compared with preceding year corresponding quarter - Continued

	<u>Individual Quarter</u>	
	Current	Preceding
	Year Quarter	Year Quarter
	31-Dec-22	31-Dec-21
	RM'000	RM'000
<b>Revenue</b>		
Manufacturing and Trading of Furniture	8,729	19,021
Processing and Trading of Wood	74,464	61,698
<b>Group</b>	83,193	80,719
<b>(Loss)/Profit before taxation</b>		
Manufacturing and Trading of Furniture	(7,825)	270
Processing and Trading of Wood	2,469	4,902
Investment Holding	65	89
<b>Group</b>	(5,291)	5,261

Manufacturing and Trading of Furniture

The segment recorded revenue of RM9 million for the quarter under review as compared to RM19 million recorded in the preceding year corresponding quarter ended 31 December 2021. Lower revenue recorded was mainly due to lower demand for furniture and the fire incident as mentioned in Note A5.

Loss before taxation of RM8 million for the current quarter were mainly due to lower revenue and impairment loss on property, plant and equipment and inventories written off amounting to approximately RM6 million as the result of the fire incident.

Processing and Trading of Wood

Revenue was recorded at RM74 million as compared to revenue of RM62 million in the preceding year corresponding quarter ended 31 December 2021. The increase in revenue was due to higher demand for tropical wood.

Lower profit before taxation of RM2.4 million for current quarter under review was mainly due to lower product margin.

**B1. Review of Performance - Continued**

Financial review for current quarter compared with immediate preceding quarter

	Individual Quarter		Changes (Amount/ %)
	Current Year Quarter	Immediate Preceding Quarter	
	31-Dec-22	30-Sep-22	
	RM'000	RM'000	
Revenue	83,193	112,034	(28,841) -26%
Loss of Inventories due to Fire	(3,515)	-	(3,515) 100%
Operating Profit	999	6,753	(5,754) -85%
(Loss)/Profit Before Interest and Taxation	(4,444)	3,939	(8,383) -213%
(Loss)/Profit Before Taxation	(5,291)	3,201	(8,492) -265%
(Loss)/Profit After Taxation	(6,450)	2,042	(8,492) -416%
(Loss)/Profit attributable to Owners of the Company	(6,604)	2,036	(8,640) -424%

	Individual Quarter	
	Current Year Quarter	Immediate Preceding Quarter
	31-Dec-22	30-Sep-22
	RM'000	RM'000
<b>Revenue</b>		
Manufacturing and Trading of Furniture	8,729	16,801
Processing and Trading of Wood	74,464	95,233
<b>Group</b>	<b>83,193</b>	<b>112,034</b>
<b>(Loss)/Profit before taxation</b>		
Manufacturing and Trading of Furniture	(7,825)	(1,572)
Processing and Trading of Wood	2,469	4,651
Investment Holding	65	122
<b>Group</b>	<b>(5,291)</b>	<b>3,201</b>

Manufacturing and Trading of Furniture

The segment recorded revenue of RM9 million for the quarter under review as compared to RM17 million recorded in the immediate preceding quarter ended 30 September 2022. Lower revenue recorded were mainly due to lower demand for furniture and the fire incident as mentioned in Note A5.

Loss before taxation of RM8 million for the current quarter were mainly due to lower revenue and impairment loss on property, plant and equipment and inventories written off amounting to approximately RM6 million as the result of the fire incident.

Processing and Trading of Wood

For the quarter under review, the revenue for the segment was recorded lower at RM74 million as compared to revenue of RM95 million in the immediate preceding quarter. Lower revenue for the current quarter was due to lower demand for tropical wood in comparison to the demand in the immediate preceding quarter.

Lower profit before taxation of RM2.5 million as compared to profit before taxation of RM5 million recorded in the immediate preceding quarter was mainly due to the lower revenue recorded.

**B2. Prospects**

As the result of the fire incident, the Group current primary goals are to protect the interest of the customers and retention and to reinstate the production capabilities within the shortest time frame.

A Business Recovery Plan (“BRP”) has been developed which consist of the followings:-

1. Repurchase and reproduction of the affected inventories and strategic collaboration with selected sub-contractors for uninterrupted supply to customers;
2. Purchase and upgrade of plant and machinery. The new facilities will be located in the existing Muar plant. Main manufacturing plant and machinery has been ordered which consist of dry paint spray booth to replace the destroyed water paint spray booth. The dry paint spray booth has high efficiency filtration of dust generated by finishing operations. The larger spray booth has been designed which is able to improve the current capacity.
3. Rebuilding of factory building upon approval from relevant authorities. Part of the proceeds from insurance company will be utilised as rebuilding cost.

A taskforce has been formed in order to execute strategies and action plans for recovery.

The Board recognises and is aware of the challenges ahead and will ensure that the Group takes all necessary precaution as well as implement strategic action plans in order to address these challenges.

**B3. Profit Forecast**

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

**B4. Taxation**

The tax charges comprise:-

	Current Quarter (RM'000)	Current Year-to-Date (RM'000)
Income Tax	1,159	2,318

**B5. Status of Corporate Proposals**

There were no corporate proposals announced for the current quarter.

**B6. Group Borrowings and Debt Securities**

The Group's borrowings as at 31 December 2022 are as follows:

As at 31-Dec-22	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
<b>Secured</b>			
Banker Acceptances	-	45,552	45,552
Bank Overdrafts	-	9,292	9,292
Term Loans	11,573	1,865	13,438
<b>Total</b>	<b>11,573</b>	<b>56,709</b>	<b>68,282</b>

As at 30-Dec-21	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
<b>Secured</b>			
Banker Acceptances	-	43,136	43,136
Bank Overdrafts	-	6,067	6,067
Term Loans	13,534	4,040	17,574
<b>Total</b>	<b>13,534</b>	<b>53,243</b>	<b>66,777</b>

**B7. Material Litigation**

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

**B8. Dividend Paid**

No dividends were paid during the financial period under review.

**B9. Earnings per Share**

The earnings per share for the current quarter and financial period ended 31 December 2022 are as follows:-

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Quarter	Current Year-To-Date	Preceding Year-To-Date
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
(Loss)/Profit attributable to owners of the Company (RM'000)	(6,604)	3,613	(4,568)	4,998
Weighted average number of ordinary shares in issue ('000)	913,853	831,545	884,726	815,164
Effect of conversion of warrants ('000)	109,738	197,461	110,548	194,310
Adjusted weighted average number of ordinary share in issue ('000)	1,023,591	1,029,006	995,274	1,009,474
Basic (loss)/earning per ordinary share (Sen)	(0.72)	0.43	(0.52)	0.61
Diluted (loss)/earning per ordinary share (Sen)	(0.65)	0.35	(0.46)	0.50



**B9. Earnings per Share - Continued**

The Warrants 2018/2023 as constituted in the Deed Poll dated 5 March 2018 will be expiring on 20 March 2023 (“Expiry Date”) and a notice of its expiry is required to be issued at least (1) month prior to the Expiry Date and such notice shall also be advertised in at least one English language newspaper circulating generally throughout Malaysia as required by the Deed Poll.

As such, a notice on warrants expiry has been issued to warrants holders and advertised in the News Strait Times on 17 February 2023 accordingly.

**B10. Notes to the Statement of Profit or Loss**

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

	Individual Quarter	Year to date
	Ended	Ended
	31-Dec-22	31-Dec-22
	RM'000	RM'000
<b>After Charging:-</b>		
Interest expenses	847	1,585
Depreciation	1,369	2,792
Property, plant and equipment		
- written off	-	1
- impairment loss due to fire	2,330	2,330
Realised loss on foreign exchange	106	106
Inventories written off due to fire	3,515	3,515
<b>After Crediting:-</b>		
Interest income	4	26
Rental income	268	530
Realised gain on foreign exchange	-	146
Gain on disposal of property, plant and equipment	-	270

**B11. Significant Related Party Transactions**

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

**B12. Authorised for Issue**

The interim financial statements were authorised for issue on 24 February 2023 by the Board of Directors.

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