

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.

- 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**
As mentioned in the interim financial statements for second quarter ended 31 December 2022, 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 has resulted in loss of approximately RM6 million due to the damaged factory building, machinery and equipment and inventories.
- To-date, the Business Recovery Plan ("BRP") that consist of rebuilding of factory building, purchase of machinery and equipment and raw materials and reproduction of affected inventories were progressing well with further elaboration in Note B2.
- The metal remnants from the fire incident have been cleared by the appointed salvage merchant and the site is ready for rebuilding once approvals are obtained. Total proceed of RM470,000 from the disposal of metal remnants which formed part of the insurance compensation, has been received and recognised during the financial period.
- SKFI had on 17 May 2023 received and accepted an offer for first interim insurance compensation payment of RM4,000,000 for factory, machinery and equipment and inventories from the lead insurer, Lonpac Insurance Berhad on a without prejudice basis. SKFI will recognise the RM4,000,000 interim insurance compensation payment in the fourth quarter ending 30 June 2023.
- SKFI has been working closely with the loss adjusters to expedite further progressive claims and payment as well as to finalise the insurance claims. In this regard, no insurance claim income, apart from the RM470,000 from the disposal of metal remnants, has been received and recognised during the financial period.
- 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-Mar-23</u>					
Revenue					
External revenue	34,007	249,053	-	-	283,060
Inter-segment revenue	347	2,386	1,485	(4,218)	-
	34,354	251,439	1,485	(4,218)	283,060
Results					
(Loss)/Profit before taxation	(11,221)	11,000	328	-	107
Taxation	(31)	(3,244)	(147)	-	(3,422)
(Loss)/Profit after taxation	(11,252)	7,756	181	-	(3,315)
<u>31-Mar-22</u>					
Revenue					
External revenue	42,920	199,532	-	-	242,452
Inter-segment revenue	495	2,015	1,395	(3,905)	-
	43,415	201,547	1,395	(3,905)	242,452
Results					
(Loss)/Profit before taxation	(2,373)	15,004	323	-	12,954
Taxation	(42)	(4,014)	(365)	-	(4,421)
(Loss)/Profit after taxation	(2,415)	10,990	(42)	-	8,533

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-Mar-23 RM'000	As at 31-Mar-22 RM'000
<u>Contingent Liabilities</u>		
Corporate guarantees given to licensed banks for banking facilities granted to subsidiaries - utilised	<u>68,194</u>	<u>65,129</u>

A14. Capital commitments

	As at 31-Mar-23 RM'000	As at 31-Mar-22 RM'000
Machinery and equipment		
- Contracted but not provided for	<u>3,745</u>	-

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-Mar-23	31-Mar-22	
	RM'000	RM'000	
Revenue	87,833	83,772	4,061 5%
Operating Profit	5,875	9,028	(3,153) -35%
Profit Before Interest and Taxation	3,193	5,849	(2,656) -45%
Profit Before Taxation	2,197	5,080	(2,883) -57%
Profit After Taxation	1,093	3,049	(1,956) -64%
Profit attributable to Owners of the Company	1,170	2,903	(1,733) -60%

The Group recorded revenue of RM88 million and profit before taxation of RM2 million for the period ended 31 March 2023 as compared to revenue of RM84 million and profit before taxation of RM5 million respectively in the preceding year corresponding period.

Revenue was recorded at RM4 million higher for the quarter under review as the result of increased in demand for tropical wood in processing and trading of wood segment.

Despite the increase in revenue, profit before taxation was recorded lower at RM2 million. The lower operating result was mainly due to lower products margin during the quarter in order to increase sales volume.

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-Mar-23	31-Dec-22	
	RM'000	RM'000	RM'000/%
Revenue	87,833	83,193	4,640 6%
Loss of Inventories due to Fire	-	(3,515)	3,515 100%
Operating Profit	5,875	999	4,876 488%
Profit/(Loss) Before Interest and Taxation	3,193	(4,444)	7,637 -172%
Profit/(Loss) Before Taxation	2,197	(5,291)	7,488 -142%
Profit/(Loss) After Taxation	1,093	(6,450)	7,543 -117%
Profit/(Loss) attributable to Owners of the Company	1,170	(6,604)	7,774 -118%

The revenue for the quarter under review was recorded higher at RM88 million as compared to RM83 million recorded in the immediate preceding quarter ended 31 December 2022. Higher revenue recorded was mainly due to higher demand for tropical wood in comparison to the demand in the immediate preceding quarter.

Loss before taxation of RM5 million recorded in the immediate preceding quarter ended 31 December 2022 was principally due to the damaged factory building, machinery and equipment and inventories of RM6 million attributed to the fire incident as mentioned in Note A5.

B2. Prospects

With reference to the second quarter financial result announcement, the development and progress of the Business Recovery Plan ("BRP") adopted by SKFI to recover from the fire incident are as follows:-

1. The process to repurchase and reproduce the affected inventories and the strategic collaboration with the selected sub-contractors in order to ensure uninterrupted supply to customers were progressing well. The existing unaffected facilities were sufficient to meet the current production output requirement due to the decrease in demand for furniture;
2. New and upgraded machinery and equipment have been identified and ordered which consist, among others, the wood working machinery and dry paint spray booth to replace the destroyed water paint spray booth. Total investment in new machinery and equipment that SKFI has contracted for but not provided during the financial period amounting to approximately RM4 million; and
3. Rebuilding of factory building is currently in the preliminary stage. To-date, SKFI has appointed an engineering consulting firm to assist in submitting plans to local council for construction approval and developing the Bill of Quantity ("BQ") for the construction of factory building. SKFI has called for and evaluate tenders submitted by contactors in order to select the most capable contractors.

The metal remnants from the fire incident have been cleared by the appointed salvage merchant and the site is ready for rebuilding once approvals are obtained. Total proceed from the disposal of metal remnants, which formed part of the future insurance compensation was RM470,000.

B2. Prospects - Continued

SKFI had on 17 May 2023 received and accepted an offer for first interim insurance compensation payment of RM4,000,000 for factory, machinery and equipment and material inventories from the lead insurer, Lonpac Insurance Berhad on a without prejudice basis.

The payment of RM4,000,000, which is expected to be received in June 2023 will be utilised as down-payment and progress payment for machinery and equipment ordered, rebuilding of new factory once approval obtained, as well as working capital.

SKFI is collaborating closely with the loss adjusters and insurers to finalise the insurance claims.

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		
- Current	1,008	3,326
- Under provision in prior year	111	111
- Over provision in prior year	(15)	(15)
	1,104	3,422

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 March 2023 are as follows:

As at 31-Mar-23	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	43,164	43,164
Bank Overdrafts	-	12,056	12,056
Term Loans	11,110	1,864	12,974
Total	11,110	57,084	68,194

As at 31-Mar-22	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	44,914	44,914
Bank Overdrafts	-	3,082	3,082
Term Loans	13,076	4,057	17,133
Total	13,076	52,053	65,129

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 March 2023 are as follows:-

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Quarter	Current Year-To-Date	Preceding Year-To-Date
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22
Profit/(Loss) attributable to owners of the Company (RM'000)	1,170	2,903	(3,398)	7,901
Weighted average number of ordinary shares in issue ('000)	1,003,362	837,321	1,030,934	825,309
Adjusted weighted average number of ordinary share in issue ('000)	1,003,362	1,030,928	1,030,934	1,012,749
Basic earning/(loss) per ordinary share (Sen)	0.12	0.35	(0.33)	0.96
Diluted earning/(loss) per ordinary share (Sen)	0.12	0.28	(0.33)	0.78

The diluted earning and loss per ordinary share for the current quarter and financial period were equal to the basic earning and loss as there were no dilutive potential ordinary shares for the quarter and financial period ended 31 March 2023.

Upon the expiry on 20 March 2023, the warrants have since been de-listed from the Official List of Bursa Malaysia Securities Berhad on 21 March 2023.

B10. Notes to the Statement of Profit or Loss

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

	Individual Quarter Ended	Year to date Ended
	31-Mar-23 RM'000	31-Mar-23 RM'000
After Charging:-		
Interest expenses	996	2,581
Depreciation	1,259	4,051
Property, plant and equipment		
- written off	5	6
- impairment loss due to fire	47	2,377
Realised loss on foreign exchange	-	62
Inventories written off due to fire	-	3,515
After Crediting:-		
Interest income	38	64
Rental income	271	801
Realised gain on foreign exchange	17	163
Gain on disposal of property, plant and equipment	373	643

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 19 May 2023 by the Board of Directors.

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