

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

The Company's wholly-owned subsidiary, Sern Kou Furniture Industries Sdn. Bhd. ("SKFI"), had on 30 June 2023 received and accepted an offer from the lead insurer, for the second and final fire insurance compensation payment of RM5,575,331 for factory building, machinery and equipment and inventories damages of which RM1,785,465 will be reimbursed subject to the fulfillment of certain conditions. The conditions are completion of re-building of factory building and proof of progress payments based on actual cost incurred. No further compensation income will be recognised until the conditions are met.

With the first and final insurance compensation of RM4,000,000 offered from the lead insurer together with the proceeds from disposal of metal remnants of RM470,496, the total fire insurance compensation is RM10,045,827.

SKFI has recognised total loss on fire amounting to RM11,173,265 during the financial year summarised as below:-

	Written off in Profit and Loss (RM)	Reversal of Revaluation Surplus (RM)	Total (RM)
Building	1,945,663	5,134,305	7,079,968
Machineries and other assets	578,673	-	578,673
Inventories	3,514,624	-	3,514,624
Total	6,038,960	5,134,305	11,173,265

Total insurance compensation payment of RM8,260,362 received and recognised during the financial year ended 30 June 2023 will be utilised by SKFI for re-building of new factory, purchase of machinery and equipment and restocking of inventories.

SKFI continues to work closely with the loss adjuster on the Consequential Loss claim.

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	Processing	Investment Holding	Inter-Company	Total
	and Trading of Furniture	and Trading of Wood		Elimination	
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30-Jun-23</u>					
Revenue					
External revenue	42,602	338,030	-	-	380,632
Inter-segment revenue	490	3,539	1,980	(6,009)	-
	43,092	341,569	1,980	(6,009)	380,632
Results					
(Loss)/Profit before taxation	(6,103)	9,315	569	-	3,781
Taxation	(80)	(2,300)	(147)	-	(2,527)
(Loss)/Profit after taxation	(6,183)	7,015	422	-	1,254
<u>30-Jun-22</u>					
Revenue					
External revenue	58,467	279,800	-	-	338,267
Inter-segment revenue	744	2,858	1,890	(5,492)	-
	59,211	282,658	1,890	(5,492)	338,267
Results					
(Loss)/Profit before taxation	(4,409)	19,885	487	-	15,963
Taxation	(53)	(5,633)	(452)	-	(6,138)
(Loss)/Profit after taxation	(4,462)	14,252	35	-	9,825

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

The Property, Plant and Equipment (“PPE”), Right-of-use (“ROU”) asset and Investment Property (“IP”) have been revalued on 30 June 2023.

A revaluation surplus, net of deferred tax of RM3 million was recorded due to the revaluation.

Net revaluation surplus of RM3.9 million and RM0.5 million were impaired respectively due to the fire incident and demolishment of 1 block of factory building in Kuala Krai.

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 30-Jun-23 RM'000	As at 30-Jun-22 RM'000
<u>Contingent Liabilities</u>		
Corporate guarantees given to licensed banks for banking facilities granted to subsidiaries - utilised	<u>73,662</u>	<u>67,991</u>

A14. Capital commitments

	As at 30-Jun-23 RM'000	As at 30-Jun-22 RM'000
Property, plant and equipment		
- Contracted but not provided for	<u>11,165</u>	<u>142</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	
	30-Jun-23	30-Jun-22	
	RM'000	RM'000	
Revenue	97,572	95,815	1,757 2%
Operating Profit	1,949	6,457	(4,508) -70%
Insurance compensation received	7,790	-	7,790 100%
Profit Before Interest and Taxation	4,763	3,761	1,002 27%
Profit Before Taxation	3,674	3,011	663 22%
Profit After Taxation	4,569	1,294	3,275 253%
Profit attributable to Owners of the Company	4,702	1,313	3,389 258%

The Group recorded revenue of RM98 million and profit before taxation of RM4 million for the period ended 30 June 2023 as compared to revenue of RM96 million and profit before taxation of RM3 million respectively in the preceding year corresponding period.

Revenue was recorded at RM2 million higher for the quarter under review as the result of increased in demand for tropical wood in processing and trading of wood segment.

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	
	30-Jun-23	31-Mar-23	
	RM'000	RM'000	RM'000/%
Revenue	97,572	87,833	9,739 11%
Operating Profit	1,949	5,875	(3,926) -67%
Insurance compensation received	7,790	-	7,790 100%
Profit Before Interest and Taxation	4,763	3,193	1,570 49%
Profit Before Taxation	3,674	2,197	1,477 67%
Profit After Taxation	4,569	1,093	3,476 318%
Profit attributable to Owners of the Company	4,702	1,170	3,532 302%

The revenue for the quarter under review was recorded higher at RM98 million as compared to RM88 million recorded in the immediate preceding quarter ended 31 March 2023. Higher revenue recorded was mainly due to higher demand for tropical wood in comparison to the demand in the immediate preceding quarter.

Despite the increase in revenue, loss before taxation was recorded at RM4 million by excluding the insurance compensation received during the quarter of RM8 million. The lower operating result were due the impairment loss on property, plant and equipment of RM1 million, bad debts written off and impairment loss on trade receivable of RM0.5 million as well as lower products margin during the quarter in order to increase sales volume.

B2. Prospects

Status of The Business Recovery Plan (“BRP”) due to the fire incident

The development and progress of the BRP adopted by SKFI to recover from the fire incident are as follows:

1. All affected orders were re-produced and shipped accordingly to customers during the financial year.
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 and will be installed accordingly upon completion of re-building of the affected factory building; and
3. Re-building of affected factory building shall commence once building approval obtained from the local council.

Insurance Claim

The second and final fire insurance compensation payment of RM5,575,331 has been received on 30 June 2023 for factory building, machinery and equipment and inventories damages of which RM1,785,465 will be reimbursed subject to the completion of reinstatement of factory building and proof of progress payments based on actual cost incurred

With the first and final insurance compensation of RM4,000,000 offered from the lead insurer together with the proceeds from disposal of metal remnants of RM470,496, the total fire insurance compensation from the lead insurer is RM10,045,827.

SKFI continues to work closely with the loss adjuster on the Consequential Loss claim.

B2. Prospects - Continued

Going forward

2023 was indeed the most challenging time for the Group where our financial performances were affected by the rising cost of raw materials and the decrease in demand for furniture mainly due to the interest rate hikes from the US which has driven up the debts levels and weaken households' furniture spending.

Despite the prevailing challenges, the Group remains optimistic on the long-term business prospects and will continue to actively pursue various business strategies to increase revenue, focus on improving efficiency, automation across operations and to implement cost control measures.

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 year	(368)	2,957
- Prior year	(54)	43
	<u>(422)</u>	<u>3,000</u>
Deferred Tax		
- Current year	(473)	(473)
	<u>(895)</u>	<u>2,527</u>

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 30 June 2023 are as follows:

As at 30-Jun-23	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	59,256	59,256
Bank Overdrafts	-	1,879	1,879
Term Loans	10,711	1,816	12,527
Total	10,711	62,951	73,662

As at 30-Jun-22	Long term	Short term	Total borrowing
RM'000	RM denomination	RM denomination	RM denomination
Secured			
Banker Acceptances	-	49,975	49,975
Bank Overdrafts	-	2,031	2,031
Term Loans	12,490	3,495	15,985
Total	12,490	55,501	67,991

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 30 June 2023 are as follows:-

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Quarter	Current Year-To-Date	Preceding Year-To-Date
	30-Jun-23	30-Jun-22	30-Jun-23	30-Jun-22
Profit attributable to owners of the Company (RM'000)	4,702	1,313	1,304	9,213
Weighted average number of ordinary shares in issue ('000)	1,078,098	837,321	1,078,098	825,309
Adjusted weighted average number of ordinary share in issue ('000)	1,078,098	1,029,681	1,078,098	1,014,098
Basic earning per ordinary share (Sen)	0.44	0.16	0.12	1.12
Diluted earning per ordinary share (Sen)	0.44	0.13	0.12	0.91

The diluted earning per ordinary share for the current quarter and financial period was equal to the basic earning as there was no dilutive potential ordinary shares for the quarter and financial period ended 30 June 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
	30-Jun-23 RM'000	30-Jun-23 RM'000
After Charging:-		
Interest expenses	1,089	3,670
Depreciation	1,483	5,534
Property, plant and equipment		
- written off	1,084	1,091
- impairment loss due to fire	147	2,524
Realised loss on foreign exchange	-	62
Inventories written off due to fire	-	3,515
Trade receivable		
- written off	187	187
- impairment loss	311	311
After Crediting:-		
Interest income	122	186
Rental income	275	1,075
Realised gain on foreign exchange	4	167
Gain on disposal of property, plant and equipment	-	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 25 August 2023 by the Board of Directors.

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