



# SERN KOU RESOURCES BERHAD

(Company No. 519103-X)

(GST No. 001161797632)

Lot PTD 6019 (Lot 8804), Jalan Perindustrian 1, Kawasan Perindustrian Bukit Bakri,  
Mukim Bakri, 84200 Muar, Johor, West Malaysia.

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23 November 2021

The Chief Executive Officer  
Minority Shareholders Watch Group  
Tingkat 11, Bangunan KWSP,  
No. 3, Changkat Raja Chulan, Off Jalan Raja Chulan,  
50200 Kuala Lumpur.  
Attention : Mr Devanesan Evanson

*By Email*

Dear Sir,

Re : 21<sup>st</sup> Annual General Meeting (AGM) of Sern Kou Resources Berhad (Sern Kou) to be held on Thursday, 25 November 2021

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We refer to your letter dated 17 November 2021. Kindly find your issues raised in the interest of minority shareholders and all other stakeholders of Sern Kou and our management replies hereunder.

#### Strategy and Financial Matters

1. For FYE 2021, the Company recorded an all time high revenue of RM324.7 million and net profit of RM17.6 million. The Company achieved this stellar performance despite the operating challenges brought about by the pandemic. (Page 3 of AR 2021)

What are the plans to further grow the business in FYE 2022?

#### **REPLY**

It is undeniable that COVID-19 particularly Delta variant were the smoking guns causing the global chaos. The threat is continuing despite achieving high vaccination rate in accordance with vaccination roadmap as announced by the government. We are aware that 2021 is the most challenging year for the Company and individually. Global rate of unemployment has increased sharply and Malaysia is no exception.

As we look ahead, we will continue to prioritise the health, safety and well-being of our team. While the outlook remains uncertain and unpredictable as there are likely to be more challenges ahead, we are focusing to rebalance and realign our existing business plans.

We cross our fingers that scientists are able to develop a silver bullet solution for the COVID-19 and bring back businesses and our living orderly.

Strategy and Financial Matters (Continue)

2. The Company is both an Original Equipment Manufacturer (OEM) and Original Design Manufacturer (ODM) (Page 4 of AR 2021). The bulk of its revenue is derived from its ODM business which churns out more than 50 designs a year.

a) What was the cost of maintaining the design team of the Company for FYE 2021?

**REPLY**

The Company has in FYE 2021 incurred RM739,000 as part of the marketing strategy. The Company has changed the strategy during FYE 2021 where the design cost was associated with the sales generated and the subsequent collection.

As the result, we managed to achieve higher sales and better debts collection.

b) What are the Company's plan to develop its ODM capabilities in FYE 2022?

**REPLY**

Apart from maintaining the existing design capability, and in view of the uncertainty as highlighted in our reply to your Q1, the Company will continue with the existing marketing strategy. In addition, the Company has in August 2021 participated in the TIMB3R DIP 2.0 Programme co-organised by the Malaysian Timber Council (MTC), Malaysian Furniture Council (MFC) and Malaysian Institute of Interior Designer (MIID). The Programme enables the Company and designers to join forces by producing creative and quality designed timber and furniture products for the international markets.

We are confident that the participation in the Programme will take the existing already-great design capability to the next level.

3. The Company has significance reliance on labour to manufacture its products.

a) What is the ratio of foreign labour to its total workforce currently?

**REPLY**

Total workforce of the Company consists of more than 50% foreign workers.

b) As the Government imposes stricter rules and regulations for the hiring of foreign labour, what are the Company's plans to mitigate the situation?

**REPLY**

We are mindful that the Company is exposed to the risk of foreign workers shortage. In order to mitigate the risk, we are committed to invest in automation in order to reduce reliance on foreign and manual labour. As the result we have invested in new machineries and equipment of RM1.7 million for FYE 2021 and RM3.2 million for FYE 2020.

The investment in automation has also assisted the Company in creating safer working environment, reducing production waste and continuous improvement on manufacturing process towards reduction in raw material, energy and water consumption through proper planning.

In addition to investment in automation, we are also employing more Malaysian to fill the vacancies.

Strategy and Financial Matters (Continue)

4. The Company had completed the disposal of a piece of land together with buildings and machineries in Muar, Johor for RM7.5 million in September 2021. (Page 8 of AR 2021)

What was the gain on the disposal of this land?

**REPLY**

Gain on the disposal of the property was RM5.2 million, if compared with the carrying amount measured using cost model.

The Company has changed the accounting policy for investment property (IP) from cost model to valuation model during the financial year ended 2021. The valuation model was applied retrospectively as if the new accounting policy has always been applied in accordance with MFRS 108.19(b) requirements. Consequently, fair value gain was adjusted to the opening retained earnings of the Company as at 1 July 2019.

The financial impact of change in accounting policy was disclosed in Note 34(a)(i), page 141 of the Annual Report 2021.

5. Sern Kou had set up a research facility and nursery in FYE 2021 to support its business operations and as part of its commitment to sustainability. (Page 9 of AR 2021)

What was the cost incurred to set up these facilities?

**REPLY**

Minimum set up cost was incurred for FYE 2021. Total set up cost incurred since the beginning of FYE 2022 for the facilities was RM310,000 consisted mainly purchase of property, plant and equipment (PPE) which include Autoclave Machines, experimental glass, iron racks, operator desks and air conditioners.

6. Other expenses of the Company rose significantly in FYE 2021 to RM1.2 million from RM215,000 in FYE 2020. (Page 73 of AR 2021)

What were the reasons for the significant increase?

**REPLY**

Other expenses consisted mainly of: -

1. Realised loss on foreign exchange RM607,000 (RM48,000 for FYE 2020), and
2. Impairment loss on factory building RM266,000 (Nil for FYE 2020)

Increase in realised loss on foreign exchange recorded was due to the strengthen Ringgit Malaysia ("RM") against US Dollar ("USD") during the first (1<sup>st</sup>) half of FYE 2021

Corporate Governance

1. Practice 4.1 of the Malaysian Code of Corporate Governance 2017 stipulates that at least half of the Board of the Company should be made up of Independent Directors.

At the end of FYE 2021, only 3 out of 7 or 43% of the Company's Directors were Independent Directors. This is not in line with Practice 4.1.

Does the Company intend to apply Practice 4.1 and if yes, by when?

**REPLY**

The Board views the numbers of its Independent Directors as adequate at present to provide necessary check and balance to the Board's decision-making process.

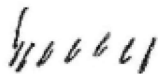
The Independent Non-Executive Directors have fulfilled their role as Independent Directors through objective participation in Board deliberations and the exercise of unbiased and independent judgement.

The Company is constantly looking for suitable/qualified candidates to be appointed as the Independent Non-Executive Director(s). We targeted to meet the recommendation of MCCG, whereby half of the Board to be made up of Independent Directors, by the first (1<sup>st</sup>) quarter of year 2022.

Please feel free to contact us or our Company Secretary should you require further clarification.

Thank you.

Yours faithfully,  
Sern Kou Resources Berhad



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Low Peng Sian @ Chua Peng Sian  
Group Managing Director