



SERN KOU RESOURCES BERHAD 200001016496(519103-X)

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

Tel: +606-986 5562 Fax: +606-986 5570

16 November 2023

The Chief Executive Officer
Badan Pengawas Pemegang Saham Minoriti Berhad
Level 23, Unit 23-2, Menara AIA Sentral,
No. 30, Jalan Sultan Ismail,
50250 Kuala Lumpur.

BY EMAIL

Attention : Mr Devanesan Evanson

Dear Sir,

**23rd Annual General Meeting (“AGM”) of Sern Kou Resources Berhad (“Sern Kou”
or the “Group”) to be held on Friday, 24 November 2023**

We refer to your letter dated 8 November 2023. Kindly find your issues raised in the interest of minority shareholders and all other stakeholders of Sern Kou and our management replies hereunder.

Operational & Financial Matters

1. Sern Kou posted yet another record-breaking turnover at RM380.6 million. The improvement was chiefly attributed to higher contribution from the processing and trading of wood segment on the back of higher demand. (Page 6 of AR 2023)

What were the factors driving demand and does the Board expect this sales momentum to continue?

REPLY:

During FYE 2022, both the sellers and buyers alike adopted highly cautious approaches in response to the prevailing uncertainty. This caution led to a decline in both selling and buying sentiment, despite the government's announcement of the transition to the endemic phase and the reopening of borders pursuant to the National Recovery Plan.

Moving into FYE 2023, sellers and buyers across various industries have successfully adapted to the endemic and the new normal. This resilience has revitalised sentiments, contributing to an upswing in both demand and supply. Consequently, supply and demand have recovered and stabilised during FYE 2023, experiencing a noticeable increase at a higher rate compared to FYE 2022.

The Group anticipates to maintain its revenue at the FYE 2023 level despite the geopolitical tensions and increasing macroeconomic uncertainty.

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2. The profitability suffered despite the top-line improvement mainly due to higher input cost across all segments that affected our performance. In FY2023, gross profit stood at RM19.1 million as compared to RM29.7 million in the prior year. (Page 7 of AR 2023)

- (a) Please name the major cost items in both segments and the price trend of these cost items from FY2022 to FY2023.

REPLY:

Major cost items for respective segments were as follows:

Manufacturing and Trading of Furniture		
Item	FYE 2023 %	FYE 2022 %
Raw Materials	70	74
Direct Labour and others	30	26
Total	100	100

Processing and Trading of Wood		
Item	FYE 2023 %	FYE 2022 %
Raw Materials	93	92
Direct Labour and others	7	8
Total	100	100

- (b) Based on the Board's outlook of the current market conditions, does the Board expect the input cost to moderate moving forward?

REPLY:

Anticipated geopolitical tensions and growing macroeconomic uncertainty are expected to lead to an increase in input costs.



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3. In FY2023, The Manufacturing and Trading of Furniture Segment recorded a lower revenue of RM43.6 million (FY2022: RM58.5 million) while the segment loss widened to RM6.1 million from RM 4.4 million a year ago. (Pages 188 & 189 of AR 2023)

- (a) What were the factors that resulted in consecutive segment loss?

REPLY:

The US central banks raised the interest rates multiples times during FYE 2023, reaching the highest level in 22 years, as part of the efforts to stabilise prices in the world's largest economy. The contraction in the furniture industry is notably evident, and a significant number of Malaysian furniture companies were adversely affected by this downturn.

The fire incident that occurred in the second quarter of FYE 2023, leading to the destruction of one manufacturing plant and damages to a spray painting facility, has adversely impacted the segment's capacity to fulfil received orders. This, in turn, has also resulted in decreased in revenue for FYE 2023.

- (b) What is the Board's outlook for this segment and what is the Board's plan to turn this segment profitable?

REPLY:

Global furniture demand is anticipated to decline, attributed to the anticipated geopolitical tensions and growing macroeconomic uncertainty. As the result, there will be an increase in competition among local furniture manufacturers, leading to reduced production volumes and intensified price competition.

The Board intends to explore and diversify into new markets as a strategy to lessen its reliance on the current major market, the US, with the aim of boosting sales volume and revenue. Additionally, the Board intends to modernise the production process by upgrading to more advanced plants and machinery. This initiative is aimed at maximising the utilisation of existing capacity and reducing losses



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4. Moving forward, the Group will continue to shift more resources and efforts to focus on our sustainable forestry venture. (Page 5 of AR 2023)

Please elaborate more on the development of the sustainable forestry venture since the last AGM. Has the Group already secured a location for trees planting?

REPLY:

The group is currently in discussions and negotiations with the pertinent authorities to secure a suitable location for tree planting initiatives.

Simultaneously, we are in the process of exploring capital funding options for the new venture with the merchant bankers and advisors.

Immediate announcements will be made as soon as we have finalised the locations or secure the necessary capital funding.

Corporate Governance Matters

1. The Company has departed from Practice 4.4 of the Malaysian Corporate of Corporate Governance, ("MCCG") for not including a review of the performance of the board and senior management in addressing the company's material sustainability risks and opportunities.

Does the Company plan to apply Practice 4.4? If so, what is the timeline?

REPLY:

The Board and senior management actively engage in the identification and addressing of the company's material sustainability risks and opportunities by collaborating with the internal ESG committee, internal auditors, and the ESG framework consultant. Regular meetings and discussions are conducted to facilitate comprehensive strategic planning and implementation.

The Board intends to undertake the annual review and assessment of the performances for both the Board and senior management in addressing the company's material sustainability risks and opportunities in the FYE 2024.



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

Thank you.

Yours faithfully,
Sern Kou Resources Berhad

Low Peng Sian @ Chua Peng Sian
Group Managing Director