



21 November 2024

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.

Dear Sir,

**24<sup>th</sup> Annual General Meeting (“AGM”) of Sern Kou Resources Berhad (“Sern Kou” or the “Group”) to be held on Friday, 22 November 2024**

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We refer to your letter dated 18 November 2024. Kindly find your issues raised in the interest of minority shareholders and all other stakeholders of Sern Kou and our management replies hereunder.

**A. OPERATIONAL & FINANCIAL MATTERS**

1. Despite registering an all-time high revenue of RM493.8 million for FY2024, a rise of 29.7% year-on-year from RM380.6 million in the prior year, which was largely driven by stronger contribution from the major segment processing and trading of wood division on the back of higher sales, Sern Kou did not manage to register a profit before tax but a higher loss before tax of RM13.71 million (excl. insurance compensation) in FY2024 (FY2023: Loss of RM4.48 million excl. insurance compensation) (Page 5 and Page of 143 of the Annual Report (AR) 2024/AR2024). The loss was due to underperformance and higher year-on-year loss of the manufacturing and trading furniture segment, which was impacted by an impairment loss on property plant equipment, etc. (Pages 196-197 of AR2024).
  - a) How do the Board and management intend to immediately address the Group's financial performance, especially with the higher pre-tax loss recorded in FY2024? What are the current critical steps taken to return to profitability?
  - b) What is the prospect of reducing the underperformance segment's loss scale, i.e., the furniture division, in FY2025? Are the Board and management expecting it to improve? If not, why?

**REPLY:**

- a) The Group has taken immediate proactive actions to reverse this trend. To achieve profitability, the Group is evaluating and enhancing current practices, including all relevant factors, and exploring a new venture.
- b) While the Group is exploring a new venture that could contribute to its profitability, the prospects of the furniture segment will depend on the outcome of this initiative.



2. Higher Cost of Sales to Revenue Ratio and Reduction in Gross Profit Margin

In FY2024, Sern Kou's Cost of sales (COS) to Revenue ratio increased to 97.60% (RM481,940,702/RM493,769,301×100) (FY2023: 94.98%). Hence, the Group's gross profit margin (GPM) decreased to 2.40% (RM11,828,599 /RM493,769,301 × 100) in FY2024 from a GPM of 5.02% in FY2023. This represents a drop in GPM by 52.19% (Page 143 of AR2024).

- a) How will the Group manage its COS to Revenue ratio moving forward?
- b) As the business may not be sustainable with such a GPM level, what is the immediate action to improve the GPM level? In what ways can Sern Kou improve its GPM level?

**REPLY:**

- (a) Our key actions to improve GPM moving forward is prioritising margin over volume growth. The Group will focus on maintaining and improving margins by carefully evaluating pricing strategies and ensuring that our products are sold at optimal profitable levels. We will avoid pursuing high-volume sales at the expense of margin, as this can compromise long-term profitability.
- (b) In the short term, our focus is on implementing strategic pricing and pursuing a new venture.

3. The Group is pleased to share that the restoration and repair efforts at one of its furniture manufacturing plants in Muar, Johor that was previously affected by a fire incident back in December 2022, made good progress and is expected to be completed soon followed by installation of new machines. The facility will be equipped with new machinery and equipment (Page 3 of AR2024).

- a) What is the percentage of progress made by the restoration and repair efforts, and when does the Group expect the exercise to be completed?
- b) What is the budget requirement for the new machinery and equipment for FY2025?

**REPLY:**

- a) The restoration and repair efforts at the Muar, Johor plant are 80% completed, and the Group expects the project to be fully completed by 3QFYE2025, following the installation of the new machinery and equipment. Training and test run for the new machinery are scheduled to commence in December 2024.
- b) The budget requirement for FYE2025 includes RM1 million as the remaining balance for the restoration and installation of the factory building. Additionally, RM4.4 million is allocated for the replacement of machinery and equipment that were completely destroyed in the fire incident.



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**B. SUSTAINABILITY MATTERS**

4. Climate Change

The Company partially achieved the KPI for Scope 1 Emissions Intensity over Sales (tCO<sub>2</sub>e/ RM'mil) of 2% reduction, achieving only 0.90% reduction of Scope 1 emissions intensity over sales (Page 24 of AR2024).

- a) What factors led to this lower percentage in FY2024?
- b) What is the target for FY2025, and what plans have been rolled out to achieve it?

**REPLY:**

- a) In FYE2024, SKRB recorded Scope 1 emissions of 441.82 tCO<sub>2</sub>e, reflecting an 11.9% year-on-year decrease from 501.64 tCO<sub>2</sub>e in FYE2023. This reduction was primarily due to lower diesel consumption, as certain manufacturing tasks were subcontracted to external providers in the manufacturing of furniture segment in order to sustain sales, and the destruction of one of the facilities due to the fire incident led to a reduction in internal diesel usage.

However, emissions intensity margins (when measured against revenue) saw a smaller reduction due to the challenging operating environment experienced in FYE2024, where revenue were primarily driven by the Group's processing and trading of wood segment. The destroyed manufacturing plant was in the process of rebuilding its fire damaged facilities, could not contribute directly to revenue gain for that financial year.

That said, the rebuilt furniture manufacturing plant is expected to commence production by 3QFYE2025, which should allow for the resumption of emissions intensity based on revenue to be a comparable metric for FYE2026 and onwards.

- b) The Group has taken note of the discrepancy and is in the midst of reassessing and revising the KPIs and targets for adoption, which are currently undergoing review by the Risk Management and Sustainability Committee (RMSC).

The Group's current focus on emissions reduction is on managing the Scope 2 emissions, which constitute the bulk of the Group's total emissions (please see the breakdown of Emissions Generated on page 49 of AR2024). The Group has adopted renewable energy, with 2 out of 8 business units having installed Solar Photovoltaic Panels.



5. Technology and Innovation

Due to inventory valuation and stock issues, the full rollout of SAP has been delayed to the second half of 2024 (Q2 FY2025) (Page 24 of AR2024).

- a. What were the details of the abovementioned two issues?
- b. What is the progress of the full rollout of SAP, and does the Group expect a further delay in its implementation? If so, why?
- c. What sustainability challenges will the Group face in the near and immediate term in case of further delay?

**REPLY:**

- a. The full rollout of the SAP system has been delayed due to challenges in two critical areas:

**1. Product Code Redesign**

The redesigning of product code is required for the inventory valuation process to ensure the system could effectively allocate costs at a more detailed level. While this change is critical for achieving better financial and operational insights, it has required additional time for restructuring and testing.

**2. Inventory Management**

The transition to the new system also required substantial enhancements to the stock management processes. This involves realigning stock tracking and reporting mechanisms to ensure they integrate seamlessly with the updated product codes.

Despite these delays, other critical modules, including marketing, procurement, and accounting, are fully operational within the SAP system.

- b. The Group has engaged a new SAP consultant to address the outstanding issues and is actively working towards a resolution. Given the complexity of the system and the scope of the required changes, the new consultant has advised that it would be prudent to schedule the full rollout during the FYE2025. This timeline allows for thorough testing and ensures alignment with the financial closing as at 30 June 2025.
- c. We do not foresee any significant sustainability challenges, as the current system is operating concurrently to support ongoing operations. The SAP implementation is aimed at enhancing the efficiency and streamlining of reporting processes, providing additional long-term benefits once fully operational.



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**C. CORPORATE GOVERNANCE MATTERS**

The Company is seeking shareholders' approvals for the payment of Directors' Remuneration (excluding Directors' Fees) payable to the Board of the Company and its subsidiaries up to RM3,500,000.00 for the period from 1 January 2025 until 31 December 2025 (Notice of 24th AGM). This represents an increase of 12.90% compared to RM3,100,000.00 for the period from 1 December 2023 until 31 December 2024 (Notice of 23rd AGM).

We also noted that the Company's bottom-line performance has deteriorated from FY2022 to FY2024.

What are the justifications for the higher remuneration that the Company is tabling for shareholders' approval?

**REPLY:**

The proposed increase was due to the remuneration to be paid to the Managing Director (MD) of one of the subsidiaries, which has contributed substantially to the Group's revenue. The MD has not received any remuneration from this subsidiary since his appointment.

Please feel free to contact 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