



21 November 2025

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,

**25<sup>th</sup> Annual General Meeting (“AGM”) of Sern Kou Resources Berhad (“Sern Kou” or the “Group”) to be held on Friday, 21 November 2025**

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We refer to your letter dated 13 November 2025. 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. For the financial year under review, the Group recorded revenue at RM486.7 million, marginally lower than the all-time high of RM493.8 million posted in FY2024. This was chiefly attributed to lower contribution from the processing and trading of wood segment resulted from the severe floods in Kelantan in the 2nd quarter of FY2025, which disrupted timber supply.

The Company's bottom-line performance was impacted by cost pressures. However, through close cost management efforts, the loss for FY2025 reduced to RM7.0 million from RM15.2 million in FY2024 (Page 5 and Page 118 of the Annual Report (AR) 2025).

- a) Apart from the abovementioned local incident, what are the strategies in place to drive top-line growth in the future, particularly in light of the highly competitive and fragmented market (Page 6 of AR 2025)?
- b) As the Group recorded a positive bottom-line variance of more than 50%, what is the prospect of achieving a turnaround in its bottom-line performance in FY2026 or the following year?

**REPLY:**

- a) Given ongoing market volatility and global trade uncertainties, short-term revenue growth remains challenging to predict. The Group aims to maintain revenue at least in line with FYE2025 while monitoring market conditions and preparing for recovery when circumstances stabilise.
- b) The Group remains focused on narrowing losses and will continue to refine its strategies to support performance and cushion the impact of unforeseen factors.

2. A recent ruling by the US Supreme Court on the legitimacy of certain tariff implementations has also intensified debate and added another layer of complexity to global trade dynamics (Page 7 of AR 2025).

In light of the newly imposed 19% U.S. tariff, to what extent does this impact the Company's business directly and indirectly, especially the margins and competitiveness?

**REPLY:**

The 19% U.S. tariff is now a confirmed element of global trade dynamics. To navigate these challenges, the Group is enhancing resilience by diversifying our customer base, including engaging new buyers, optimising our product mix, and working closely with partners to improve cost efficiencies. At the same time, we are reinforcing customer engagement to support order replenishment. These initiatives, coupled with prudent resource planning, will strengthen our operational resilience and position the Group to mitigate potential impacts while benefitting when demand improves.

3. The Group's selling and distribution expenses increased significantly from RM3.7 million in FY2024 to RM6.6 million in FY2025. While, the Group's other operating expenses also increased significantly from RM17,996 in FY2024 to RM777,766 in FY2025 (Page 118 of AR 2025).
- a) While it is understood that the Group's business faces cost pressures, are there ways to reduce or mitigate these expenses moving forward? If so, what measures are being considered to reduce these expenses? What is the outlook for selling and distribution costs in FY2026 relative to the Group's revenue?
- b) What were the key factors contributing to the sharp increase in other operating expenses in FY2025?

**REPLY:**

- a) The increase in selling and distribution expenses in FY2025 was mainly due to higher transportation and logistics costs. This was driven by plywood exports to the China market and by increased domestic deliveries to sawmill customers located in other states, which required longer delivery routes. These expenses were incurred on a reimbursement basis and were either recovered from customers or embedded into selling prices, resulting in minimal net impact to the Group. The outlook for FY2026 will be influenced by the order flow from both plywood customers and sawmill customers located in other states.
- b) The increase in other operating expenses in FY2025 was primarily due to foreign exchange losses arising from the depreciation of the US Dollar against the RM by approximately 6.8% (FY2025: RM4.3769, FY2024: RM4.6978).

4. Workforce shortage and retention of skilled workers are perennial issues within the industry. This scarcity poses a risk to the Group's production and operational efficiency, potentially impacting its financial performance. To address this, the Group has been proactively integrating automation into its production processes to reduce reliance on manual labour and ensure smoother operations. For instance, the Group invested in new machines and equipment with greater levels of automation for its furniture manufacturing segment (Page 6 of AR 2025).
- a) What is the latest automation-to-manual labour ratio, and what is the targeted optimal level or timeframe for achieving greater automation efficiency?
  - b) For the automation-related capital investments, what is the expected Return on Investment over the useful life of the machines and equipment, the Internal Rate of Return relative to the Group's Cost of Capital, and the Payback Period for these investments?

**REPLY:**

- a) Approximately 50% of the production activities are currently automated. The automation level will be managed flexibly, and may be adapted depending on operational and business requirements.
- b) Considering the financial performance of the furniture manufacturing segment and the ongoing efficiency initiatives, the Segment's evaluation of automation investments focuses on their ability to enhance operational efficiency, reduce reliance on manual labour, and strengthen long-term competitiveness.

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