

25 August 2023

Badan Pengawas Pemegang Saham Minority Berhad
Level 23, Unit 23-2, Menara AIA Sentral
No.30, Jalan Sultan Ismail,
50250 Kuala Lumpur.

Dear Mr. Devanesan Evanson (Minority Shareholders Watch Group),

RE : AURO HOLDINGS BERHAD 23RD ANNUAL GENERAL MEETING (“AGM”)

With reference to your letter dated 9th August 2023 received by email, the Board of Directors would like to append the following responses to the questions raised.

Operational & Financial Matters

1. For the FYE2023, the Group recorded revenue of RM2.63 million compared to RM3.23 million for the prior year. Group revenue was lower for the FYE2023 with contribution to revenue only from the moulding and timber business and no revenue generated from the consulting and information technology business. Loss for the year from continuing operations was RM5.65 million compared to a loss of RM16.45 million for the prior year (Page 9 of the Annual Report 2023/AR2023).

(a) How does the Board plan to address the year-on-year lower revenue?

The Board acknowledges the challenge and concerns of its shareholders posted by the lower revenue year-on-year. The Board believes that the worst in its turnaround plans are over.

Among the array of strategies that had been considered, the Board will be strategically diversifying the Group’s established business operations. It had commenced calculated expansion of the Group’s portfolio of revenue streams by venturing into new uncharted businesses.

With a committed focus on maximising value and returns to all shareholders, the Company will methodically protect its current revenue stream while exploring prospects of lucrative new business opportunities through stringent analysis and prudent decision-making.

(b) Why did the Group record zero revenue from the consulting and IT business in FYE2023? What is the prospect of generating revenue from the business in FYE2024?

In FYE 2023, there were strategic evaluations for the consulting and IT business surrounding the shift in business focus to what was important and financially viable for the Group. This resulted in the consulting and IT business being dormant as the Board contemplates the future prospects which may, or may not eventuate to a potential sale of the business.

Nevertheless, while the consulting and IT business remains dormant, there were incurrence of office expenses and other fixed costs. There are currently no plans to recommence the consulting and IT business going forward.

(c) With the significant improvement in the bottom-line result, what is the prospect of a turnaround in FYE2024?

In the first quarter of FYE 2024 ended 31 May 2023, the Company achieved a notable milestone by recording a marginal profit, signaling an improvement in our bottom-line performance. The achievement underscores the effectiveness of the strategic measures implemented to enhance operational efficiency and streamline the Group's financial landscape.

The Board is supportive of management's diligent efforts and unwavering commitment to revitalise operations. Building on this momentum, we are cautiously optimistic of the prospects of turnaround for FYE 2024.

2. In FYE2023, Auro recorded another gross loss of RM2,312,987 (FYE2022: Gross loss of RM2,907,358) when its cost of sales of RM4,940,3086 was higher than the revenue of RM2,627,321 (Page 41 of AR2023).

(a) Why did the Group incur another gross loss in FYE2023? What has made the cost of sales higher than the revenue?

The Group's timber and moulding business segment recorded gross losses for both FYE 2023 and FYE 2022. Changes in market demand for the Group's timber products have made it challenging for Auro as its cost structure is less flexible, resulting in consistent gross losses year-on-year. As the timber and moulding business continues to trend downwards for the Auro group, revenue is not sufficient to cover fixed costs such as operational staff expenses, factory maintenance and depreciation of property, plant and equipment.

(b) What are the steps taken by the Board to address the above issue? When does the Group expect its business to record a gross profit?

The Board has proactively tackled the challenge by meticulously reducing fixed costs, which had resulted in lower cost of sales in the first quarter of FYE 2024 ended 31 May 2023. There has been a reduction in operational staff and this has led to the Group achieving a gross profit in the first quarter.

The Board remains dedicated to optimising operations to achieve profitability moving forward.

3. During the financial year, there was a provision for slow-moving inventories of RM303,718 (FYE2022: Nil) from the Moulding and Timber business segment (Page 82 of AR2023).

What is the prospect of clearing the slow-moving inventories? Has the Group managed to clear the inventories, to-date? If so, how much of the inventories have been cleared?

As at the end of May 2023, the Group had managed to sold a portion of the slow moving stocks and the Board will endeavour to liquidate the rest of the inventories.

Corporate Governance Matters

4. The Company has departed from applying Practice 1.4 of the Malaysian Code on Corporate Governance (“MCCG”) (Page 7 of CG Report).

Practice 1.4 of MCCG states that the Chairman of the board should not be a member of the Audit Committee, Nomination Committee or Remuneration Committee.

Practice 1.4 explains that having the same person assume the positions of Chairman of the board, and Chairman of the Audit Committee, Nomination Committee or Remuneration Committee gives rise to the risk of self-review and may impair the objectivity of the Chairman and the board when deliberating on the observations and recommendations put forth by the board committees.

Thus, the Chairman of the board should not be involved in these committees to ensure there is check and balance as well as objective review by the board (Guidance/G1.4 of MCCG).

Please take note.

As detailed in the Corporate Governance Report 2023, the Board acknowledges the risk of self-review which may impair the objectivity of the Chairman and the Board when deliberating on the observations and recommendations put forth by the Board Committees. Thus, the Board will endeavour to comply with this practice and will consider reshuffling the composition of the Board Committees in future, when there are additional independent directors.

Nevertheless, the Board is of the view that there is sufficient checks on objectivity as there are two (2) independent directors out of a total of three (3) committees members in the Board Committees.

The questions and responses will also be presented to shareholders at the forthcoming AGM to be held on 30th August 2023.

If there is any further clarifications, please do not hesitate to get in touch with us.

Thank you.

Yours sincerely,
For Auro Holdings Berhad (formerly known as NWP Holdings Berhad)

- Signed-

Tan Jyy Yeen
Executive Director