



SARAWAK CONSOLIDATED INDUSTRIES BERHAD

(Registration No.: 197501003884 (25583-W))

(Incorporated in Malaysia)

SUBJECT: AUDIT REPORT- MODIFIED OPINION

QUALIFIED OPINION

The Board of Directors of Sarawak Consolidated Industries Berhad (“SCIB” or “the Company”) wishes to announce that Nexia SSY PLT, the Company’s External Auditors, had expressed a qualified opinion on the Company’s Audited Financial Statements for the financial period ended 30 June 2021 (“AFS”). Pursuant to Paragraph 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), the Company hereby sets out below the full details of the qualified opinion under the Report on the Audit of the Financial Statements dated 30 December 2021 contained in the AFS:-

A. DETAILS OF THE QUALIFIED OPINION DISCLOSED IN THE EXTERNAL AUDITORS’ REPORT

“Qualified Opinion

We have audited the financial statements of Sarawak Consolidated Industries Berhad, which comprise the statements of financial position as at 30 June 2021 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 9 to 125.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2021, and of their financial performance and their cash flows for the period then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Qualified Opinion

Engineering, Procurement, Construction and Commissioning (“EPCC”) Contracts

Subsequent to the financial period end of the Company, the Company and its wholly owned subsidiary, SCIB International (Labuan) Ltd (“SCIBIL”), have on 10 November 2021 signed settlement agreements (“Settlement Agreements”) with all the parties of the six projects carried out in Qatar and Oman, as disclosed in Note 36.8 to the financial statements. The key salient terms of the Settlement Agreements are as follows:

- 1. To terminate the EPCC contracts;*
- 2. Confirmation of the amounts owing from and to the respective parties in respect of the works carried out for the project with no penalty and/or punitive damages to be claimed by the parties;*
- 3. Settlement of the debts will be solely dependent on collections from Project Owners. In the event the agreed instalments are not paid in full or progressively on due dates and/or ceased, payments to the Sub-Contractors shall also be delayed and/or ceased;*
- 4. The Project Owners have agreed to guarantee the payments owing by them to the Company and SCIBIL as at 30 September 2021 (Debt 1) of USD148,706,410 (RM617,429,014) and by the Company and SCIBIL to the SubContractors (Debt 2) of USD135,145,130 (RM561,122,581) and indemnify the Company and SCIBIL against all claims by the Sub-Contractors; and*
- 5. The Settlement Agreements shall be terminated in the event that any one of the payments are not made according to the schedule. The payment instalment deadlines pursuant to the agreements are November 2021, December 2021, March 2022 and June 2022.*

The Company had made the relevant announcements of the above Settlement Agreements to Bursa on 10 November 2021.

In the event of termination of the Settlement Agreements, Debt 1 owing by the Project Owners to the Company and SCIBIL shall become immediately due and payable upon which the Company may commence arbitration proceedings for the recovery of Debt 1. Notwithstanding the above, the Sub-Contractors collectively agree that the amounts received by them towards Debt 2 shall be deemed to be the full and final settlement of Debt 2 payment and that they will have no claims in respect of Debt 2 against the Company and SCIBIL. Up to the date of our report, the Company and SCIBIL have indicated that the November and December 2021 instalments of the six settlement agreements have not been paid by the Project Owners.

Following the Settlement Agreements signed on 10 November 2021 by all the parties, the Directors of the Company resolved to reclassify the transactions relating to all eight projects based overseas (inclusive of the six projects carried out in Qatar and Oman) by disclosing the net amount due to the Group and to the Company of USD15,670,756 (RM64,223,196) and USD4,246,080 (RM17,847,637) respectively as project management fee. Consequently, the Group and the Company have made adjustments to the financial statements, the details of which are disclosed in Note 22 to the financial statements.

We were unable to obtain sufficient appropriate audit evidence about the EPCC Contracts and all the adjustments related thereto. Accordingly, the impact of the net profit recognised in the Statement of Profit and Loss and Other Comprehensive Income as disclosed, amounting to

RM3,549,473 has not been ascertained. Consequently, we were unable to determine whether the said adjustments were deemed necessary.

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (“ISA”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current period. Matters giving rise to a modified opinion are by their nature key audit matters and consequently the matters described in our Basis for Qualified Opinion section of our report has addressed the key audit matters and we have determined that there are no other key audit matters to communicate in our report.”

B. STEPS TAKEN OR PROPOSED TO BE TAKEN TO ADDRESS THOSE KEY AUDIT MATTERS PERTAINING TO THE MODIFIED OPINION

We have re-strategised our geographical positioning by taking a closer look at potential emerging markets especially in the home and neighbouring countries. Management will establish a clear policy that should be in place to ensure the completeness of the filing and retention of documentation for audit trail purposes and strengthen the internal control system and control activities of the Project Management division to ensure adequate and effective monitoring, supervision and reporting functions are in place.

C. TIMELINE FOR THE STEPS MENTIONED IN SECTION B

Barring any unforeseen circumstances, the Company expects to resolve the abovementioned key audit matters relating to the qualified opinion in the subsequent financial year.

Date of Announcement: 31 December 2021