2 ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW OF COMPANY'S BUSINESS

Sarawak Consolidated Industries Berhad ("SCIB" or "the Group") is a Kuching-based integrated construction-and-manufacturing Group founded in 1975 as a small enterprise and has since evolved into an entity listed on the Main Market of Bursa Malaysia Securities Berhad.

Our core business is the manufacturing of precast concrete products such as Concrete Spun Pipes, Prestressed Spun Concrete Piles, RC Square Piles, RC Box Culverts, Prestressed Girder Beams, Precast Concrete Industrialised Building System (IBS), a construction technique in which components are manufactured in a controlled environment either onsite or offsite, and other related concrete products.

The Group is the leading precast concrete products and IBS manufacturer in East Malaysia certified with Quality Management System ISO9001:2015 by SIRIM QAS. The Group's brand is well-known among housing developers and contractors in Sarawak as well as other parts of Borneo.

We operate three (3) factories in Kuching located in the Pending Industrial Estate and the Demak Laut Industrial Park with a total capacity of 500,000 tonnes yearly, which is sufficient to cater to Sarawak's large public infrastructure projects such as the State's portion of the Pan Borneo Highway, Sarawak's coastal road and bridges, water and power supply, public schools, hospitals and health clinics and other infrastructure and construction projects overseas. SCIB is home to 318 employees and contract workers as of 30 September 2022.

OUR VISION

We are a business founded on excellence and dedicated to the creation of prosperity that can be shared with all.

OUR MISSION

- To operate based on sound management principles that grow and create value for our shareholders while creating career opportunities as well as financial rewards for our employees
- To produce and distribute best-in-class products leveraging on our in-house expertise
- To be a good corporate citizen by actively engaging with the community that we operate and work in while recognising the role business plays in society

MANAGEMENT DISCUSSION & ANALYSIS

(CONT'D)

OUR KEY MARKETS

The Group began by supplying precast concrete and IBS products to Sarawak and parts of Sabah, Kalimantan and Brunei where we are the market leader. Now, the Group has spread its wings, diversifying to the rest of Malaysia, as well as overseas markets. Besides civil infrastructure projects, our products such as pipes, piles, culverts, beams and other precast concrete IBS components are used extensively in commercial, industrial and residential property projects too.

Building strategic relationships with our customers is important to us and we have gone above and beyond the normal supplier/customer affiliation as part of our plan to extend our reach and presence beyond Sarawak and Malaysia.

OUR STRENGTHS AND OPPORTUNITIES

The Group has an excellent track record as a manufacturer of precast concrete and IBS products while at the same time offering customers technical expertise, professional consultation, and customised solutions. Our record of projects and our brand-recognition, especially in Sarawak, where we are a preferred supplier not just for government but also for the private sector, is a testament to our reliability and quality.

These are our underlying strengths:

i) The leading spun pile and IBS hollow core and panel walls manufacturer in East Malaysia
ii) Leading precast concrete pipe manufacturer in East Malaysia
iii) All factories are certified with Quality Management System ISO 9001: 2015 by SIRIM QAS, ISO45001:2018 (Occupational Health and Safety Management Systems) and ISO14001:2015 (Environmental Management System)
iv) An experienced and reliable in-house engineering design team
v) A wharf facility for shipments across Borneo
vi) A total solutions provider with a wide product range

While Sarawak continues to be an important market for us, we seek opportunities throughout Malaysia and beyond to:

i) Increase market acceptance and government support of the IBS system
ii) Increase use of the IBS system as developers and contractors face labour shortages
iii) Continue roll-out of large infrastructure projects in Sarawak such as the Pan Borneo Highway, Sarawak coastal road and bridges, water and power supply, public schools, hospitals and health clinics.
iv) Expand to overseas markets
v) Specialise in small to mid-sized EPCC projects such as the construction, expansion, maintenance or upgrades of healthcare, educational and utility facilities
vi) Interest in rural infrastructure such as roads as well as housing and logistics infrastructure like ports and airports

OUR BUSINESS STRATEGIES

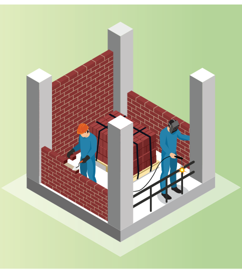
The Group's construction division is diversifying geographically from our main market in East Malaysia by leveraging on our presence overseas to tender for projects. Our manufacturing division will leverage on our experience producing quality building materials through our entry into higher value-added projects in the Engineering, Manufacturing, Construction and Commissioning ("EMCC") sector where we can increase sales of our precast concrete and IBS products.

For the future, the Group is busy strengthening its construction capabilities to ensure we are capable of handling more value-added jobs, especially in the EMCC sector. SCIB is also adopting technology to better assist our customers in terms of efficiency and productivity.

MANAGEMENT DISCUSSION & ANALYSIS

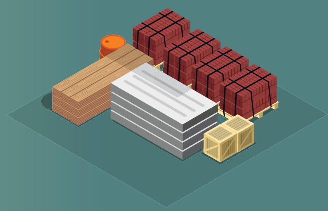
(CONT'D)

KEY FACTS (AS AT 30 SEPTEMBER 2022)

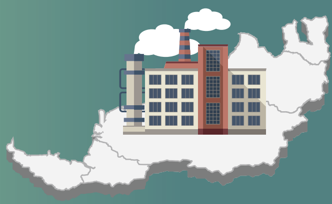


More than
RM1 billion
construction projects supported

500,000
tonnes annual capacity



3
integrated factories based in Sarawak

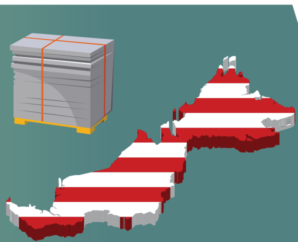


Newly acquired subsidiary company in West Malaysia with
IBS facilities

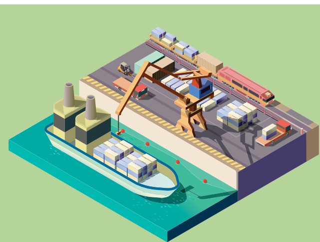
RM1.52 billion
order book value

Equipped with the relevant accredited licenses such as **Contractor Grade G7** and Sijil Perolehan Kerja Kerajaan (SPKK) - by Construction Industry Development Board, Sijil Taraf Bumiputra ("STB") and approved supplier of Ministry of Finance ("MOF")

Leading
precast concrete & IBS manufacturer
in **East Malaysia**



Wharf facility
for shipment across Borneo



MANAGEMENT DISCUSSION & ANALYSIS
(CONT'D)

COMPANY FINANCIAL REVIEW

As announced on 24 May 2021, the Group has changed its financial year end from 31 December to 30 June. The current financial year ended 30 June 2022 ("FYE 2022") covers 12 months financial result from 1 July 2021 to 30 June 2022, and therefore cannot be entirely compared with the results reported in the previous 18-months financial period ended 30 June 2021 ("FPE 2021").

Our financial highlights for the past 5 financial years/period

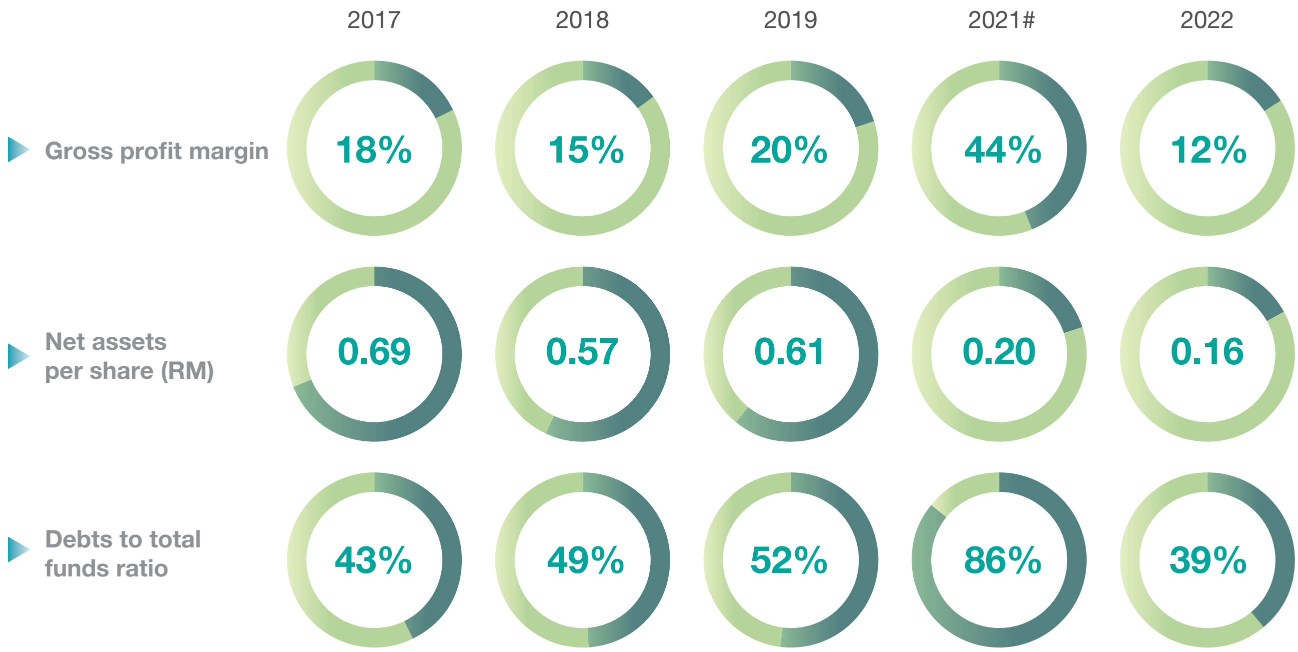
Financial year/period	2017 (12 months) RM'000	2018 (12 months) RM'000	2019 (12 months) RM'000	2021 (18 months) RM'000	2022 (12 months) RM'000
Revenue	**68,785**	**75,957**	**86,048**	**198,964**	**128,429**
- Manufacturing	61,098	75,957	77,511	105,696	85,862
- Construction/EPCC/Project Management*	7,312	-	8,902	93,268	41,860
- Property Trading	375	-	(365)	-	707
Gross profit / (loss)	**12,441**	**11,410**	**17,297**	**86,829**	**16,051**
- Manufacturing	11,637	14,323	16,076	21,168	13,735
- Construction/EPCC/Project Management*	760	(2,913)	1,256	65,661	2,247
- Property Trading	44	-	(35)	-	69
Profit /(loss) before tax	**(118)**	**(9,928)**	**3,193**	**5,722**	**(53,439)**
Profit /(loss) after tax	**(258)**	**(9,792)**	**3,150**	**(4,209)**	**(43,757)**
Adjusted EBITDA	**5,089**	**2,041**	**6,609**	**58,031**	**(25,883)**
Total assets	**108,619**	**101,941**	**116,109**	**761,860**	**193,596**
Current assets	**57,774**	**58,945**	**65,719**	**715,302**	**137,950**
Total liabilities	**49,763**	**53,090**	**64,108**	**663,488**	**98,430**
Shareholders' equity	**58,856**	**48,851**	**52,001**	**98,372**	**95,166**
Current liabilities	**39,273**	**36,637**	**44,321**	**646,542**	**71,930**
Loans and borrowings	**23,830**	**26,305**	**37,426**	**44,035**	**49,016**
Total no. of shares	**85,882,500**	**85,882,500**	**85,882,500**	**490,610,000**	**582,037,532**

Remarks:-

* *Construction/EPCC/Project Management segment – involved in the installation of Industrialised Building System components, construction contracts, engineering, procurement, construction and commission ('EPCC') which includes, among others, piping system, process control and instrumentation, equipment installation and other related services. The revenue of this segment is contributed by contracts revenue and project management fee.*

MANAGEMENT DISCUSSION & ANALYSIS

(CONT'D)



For better comparison, FPE 2021 figures have been annualised in the below analysis to illustrate the Group's financial performance.

The Group's revenue showed a decrease of 3.2% at RM128.4 million for FYE 2022 as compared with the RM132.6 million of annualised revenue recorded for FPE 2021. The Group recorded gross profit ("GP") of RM16.1 million, a decrease of RM41.8 million or 72.2% compared with the annualised GP of RM57.9 million in FPE 2021. The decline in gross profit is mainly due to the termination of overseas projects.

The Group also recorded a loss before tax ("LBT") of RM53.4 million as compared with an annualized profit before tax ("PBT") of RM3.8 million in FPE 2021, representing a decrease of RM57.3 million. The LBT is mainly attributed to the net impairment loss on trade and other receivables, and contract assets of RM24.8 million and expenditure incurred in consultation fees on project related activities of RM26 million.

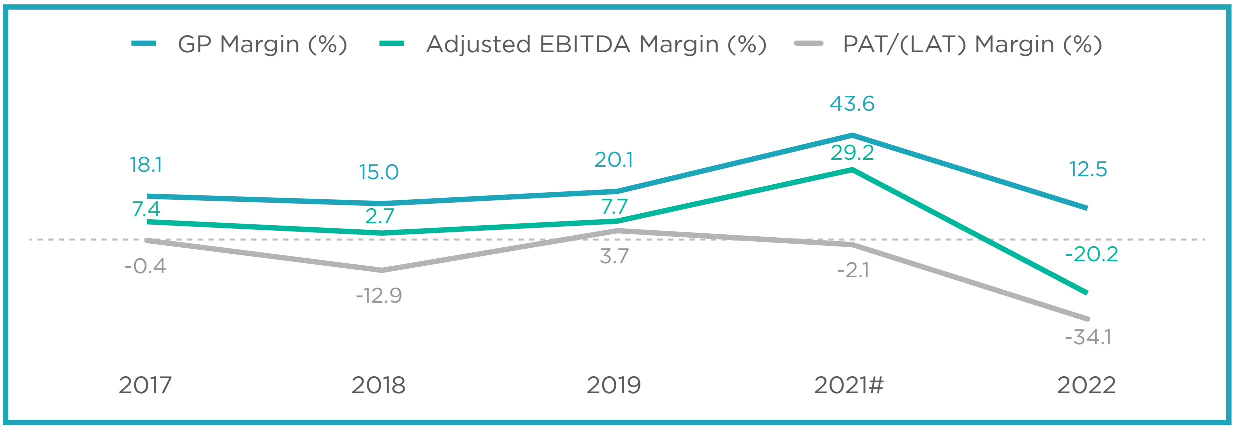
The Group's total assets decreased 74.6% to RM193.6 million as of 30 June 2022 compared with the RM761.9 million recorded in the corresponding financial period of 2021 whereby total liabilities decreased by 85.2% to RM98.4 million. Our current assets decreased by 80.7% to RM137.9 million as at 30 June 2022 compared with the RM715.3 million recorded in the corresponding financial period of 2021. The huge decrease in assets and liabilities were due to the offset of trade debtors and trade creditors from Qatar and Oman, as a result of the signing of Novation Agreement. Cash and bank balances stood at RM36.2 million as of 30 June 2022.

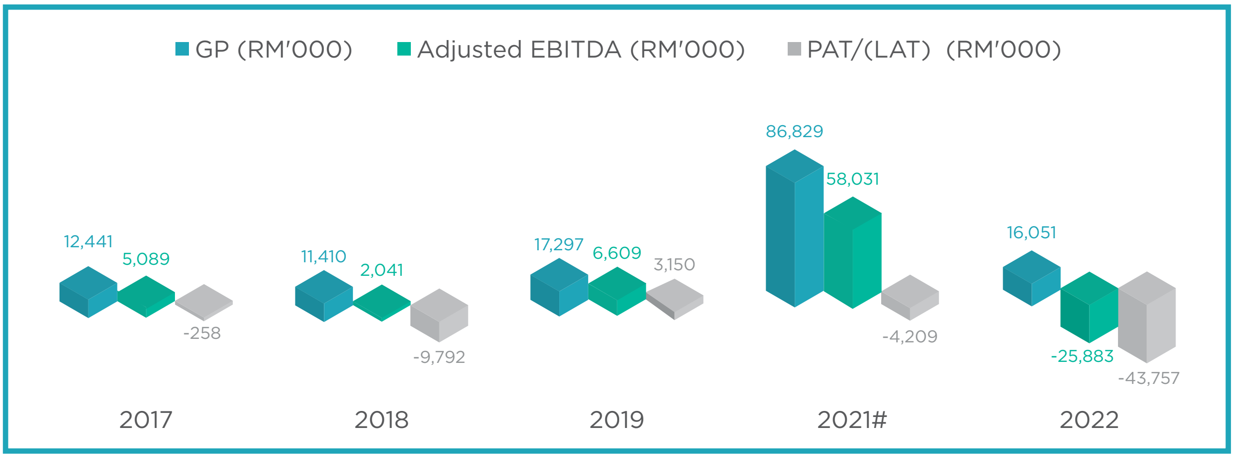
This was a cumulative 18-months result due to the change in financial year end from 31 December 2020 to 30 June 2021.

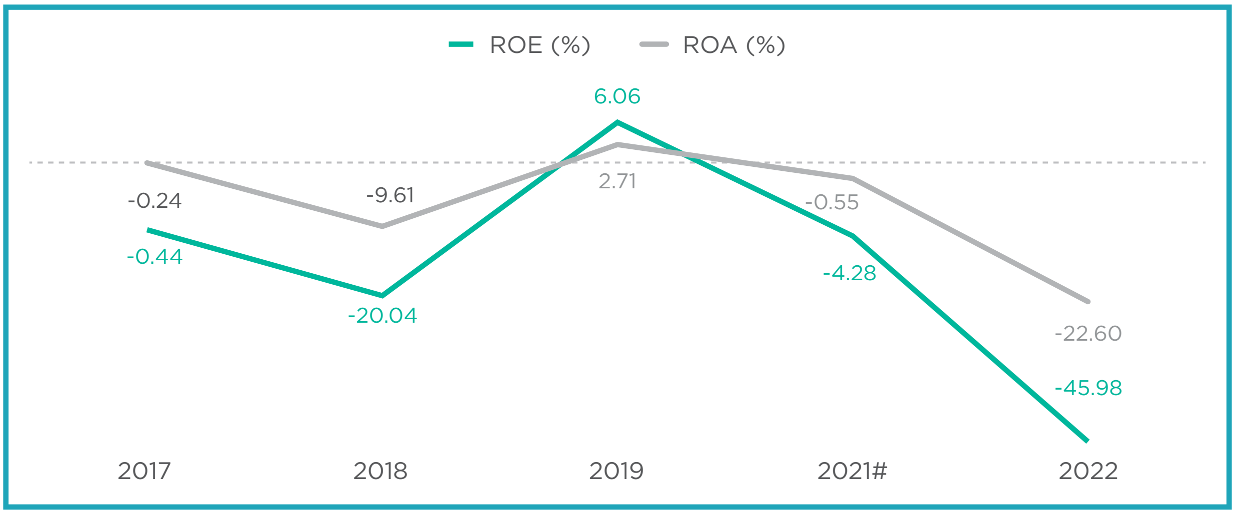
MANAGEMENT DISCUSSION & ANALYSIS

(CONT'D)

Profitability & Margins

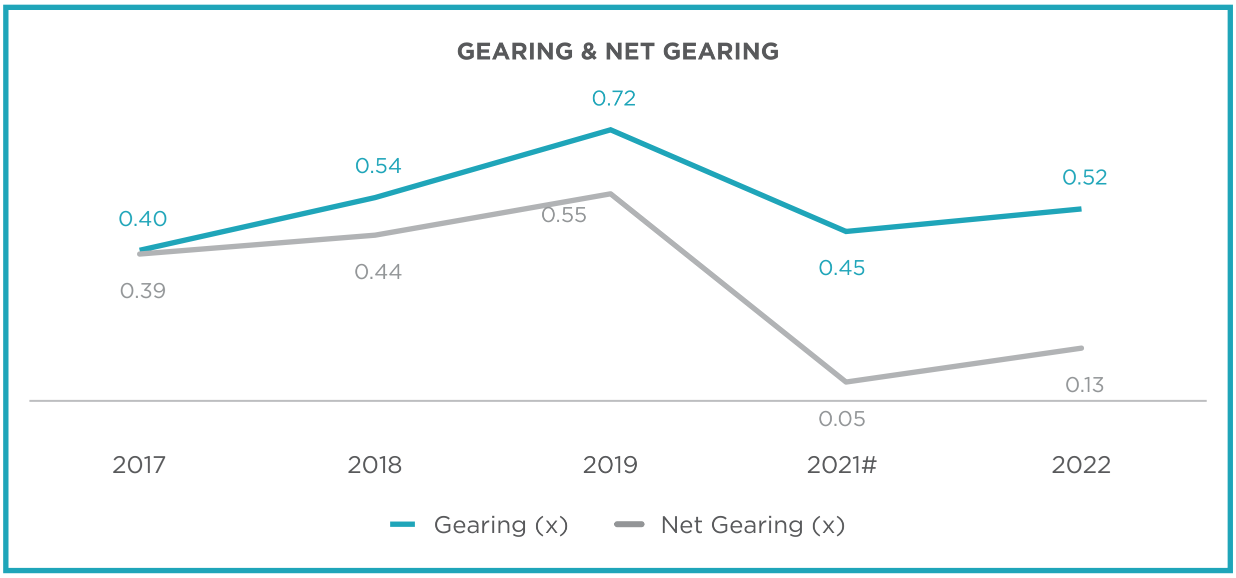


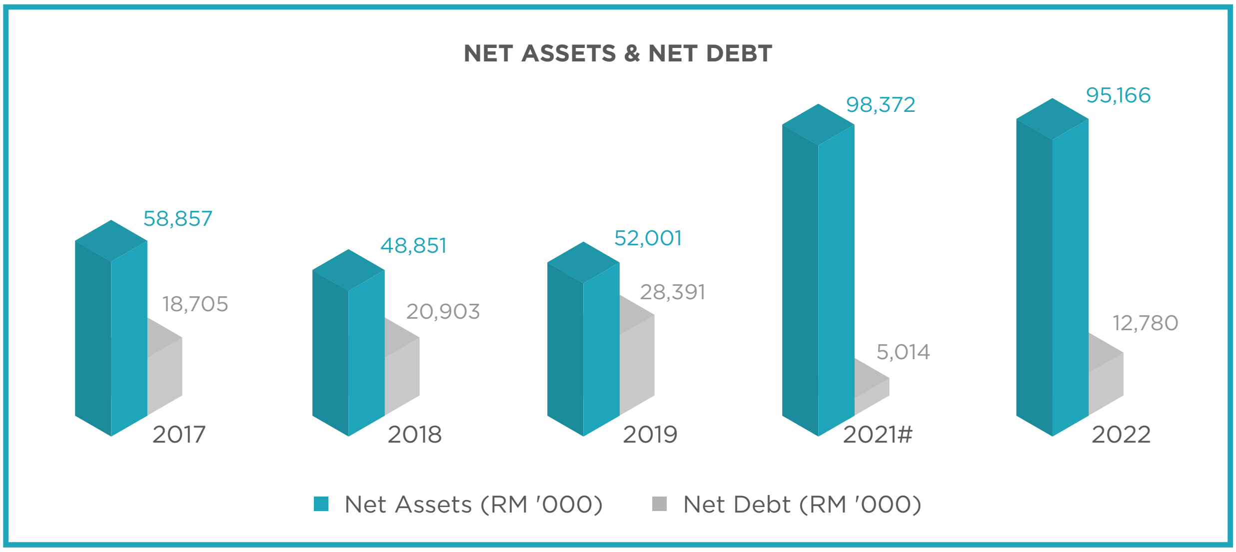




\# *This was a cumulative 18-months result due to the change in financial year end from 31 December 2020 to 30 June 2021.*

MANAGEMENT DISCUSSION & ANALYSIS
(CONT'D)





This was a cumulative 18-months result due to the change in financial year end from 31 December 2020 to 30 June 2021.

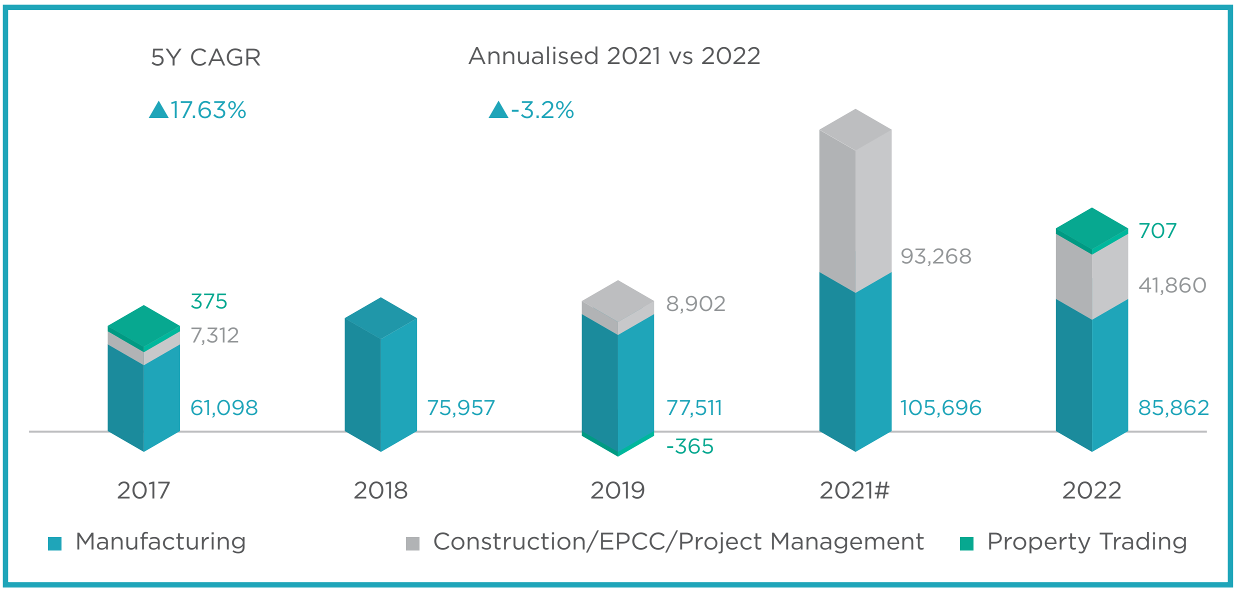
MANAGEMENT DISCUSSION & ANALYSIS

(CONT'D)

OPERATION REVIEW BY BUSINESS SEGMENT

The Group's business segments are as follows:

1. Manufacturing
2. Construction/EPCC/Project Management
3. Property Trading



Revenue breakdown for FYE 2017 – FYE 2022

Manufacturing Segment

- Our manufacturing segment, being the pillar of the Group, continued to thrive and remained as the largest contributor to the Group's revenue. The segment revenue increased by 21.8% to RM85.9 million for FYE 2022 as compared to the annualised revenue of RM70.5 million recorded in FPE 2021. The revenue growth was primarily driven by economic recovery from the pandemic as we continued supply for the rolling out of coastal bridges and schools projects in Sarawak.

Construction/EPCC/Project Management Segment

- Construction/EPCC/Project Management segment reported revenue of RM41.9 million for FYE 2022, representing a decrease of 32.6% as compared to the annualized revenue of RM62.2 million recorded in FPE 2021. The decrease in revenue was mainly due to the termination of overseas contracts.

Property Trading Segment

- The property trading segment registered revenue of RM0.7 million for FYE 2022. Revenue was contributed by the sales of apartment units at Santubong Suites.

\# *This was a cumulative 18-month result due to the change in financial year end from 31 December 2020 to 30 June 2021.*

MANAGEMENT DISCUSSION & ANALYSIS

(CONT'D)

Share Price Performance

As at 30 June 2022, the Group's share price closed at RM0.175 with a total market capitalization of RM101.9 million. The year-to-date high stood at RM0.87 while the year-to-date low stood at RM0.17.

Share Price Performance & Trading Volume for the financial year ended 30 June 2022

Source: Wall Street Journal

Dividend

Starting 2020, the Board adopted a Dividend Payout Ratio of at least 30% of the Profit After Tax attributable to the owners of SCIB for each financial year, excluding any unrealised income from adjustments due to accounting policies that are non-cash in nature. During the financial year under review, no dividend was proposed to the shareholders.

ANTICIPATED OR KNOWN RISKS

Risks

The Group is exposed to operational and financial risks arising from its operations and from the use of financial instruments. These risks are monitored quarterly through the Board's Risk Management Committee ("RMC") and the Risk Management Working Group ("RMWG") at the management level.

The RMWG has met numerous times to identify, address and manage those risks that are deemed critical and will greatly affect the daily operations of our factories. The said committee will also review the effectiveness of the actions taken to mitigate those risks and recommend further steps where and when required. Management is of the opinion that the operational and financial risks are properly mitigated to a minimum level.

MANAGEMENT DISCUSSION & ANALYSIS

(CONT'D)

Credit risk

The Group and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Company ("SCIB") and its subsidiary, SCIBL had on 10 November 2021 signed the respective Settlement Agreements with our Clients and the respective subcontractors for Qatar and Oman projects that were awarded to SCIB Group, to mutually terminate the Contracts and confirm the obligation on the full and final settlement of debts and establish the term and payment schedule for the amount owing between the Parties. Subsequently on 20 September 2022, SCIB and SCIBL signed a Novation Agreement with the above Clients and the respective subcontractors, to mutually novate all their obligations, rights, benefits and interest pursuant to the Settlement Agreement dated 10 November. This financial year under review, the Group has also recognized a net impairment loss on trade and other receivables of long due outstanding balance from our clients, amounting RM23.0 million as a measure to mitigate the Group's exposure to credit risk.

The Group's trade debtors' turnover period improved from 139 days to 115 days, mainly benefitting from the economic recovery as we transitioned to the endemic phase of COVID-19. Ample steps have been taken to assess and manage the credit risks during the year under review.

Liquidity risk

The Group and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group has a total revolving bank facilities limit of RM31.0 million, of which only RM19.1 million or 61.5% was drawn down in the financial year under review. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of our stand-by revolving credit facilities.

As far as practicable, the Group will constantly raise committed funding from both capital markets and financial institutions and prudently balance its portfolio through short term funding so as to achieve overall cost-effectiveness.

Interest rate risk

The Group is exposed to market risks as there are risks for changes in interest rates, mainly in loans and borrowings. Despite the possibility of fluctuation in the bank's base financing rate, the Group does not foresee that it will be greatly affected if there is such an increase.

Risks inherent in the infrastructure and construction industries

By virtue of the Group's involvement in the manufacturing of precast concrete products and IBS components for use in the infrastructure and construction industries, we are exposed and will be affected by the inherent risk factors such as risks arising from changes in government policies, legislation and regulations affecting the infrastructure and construction industries, risks relating to changes in political, social and economic conditions and competition and/or business risks. Furthermore, the Group is also exposed to construction risks such as an increase in construction cost due to any escalation of material and service costs, availability of skilled manpower, materials, subcontractors' performance, and default or breach of contractual obligations and terms.

Operational risks

In running the day-to-day business, the operational risks that arise include shortages of raw materials, price uncertainties of raw materials, factory productivity and efficiency, labour shortage, machinery downtime, skill and competency of the Company's employees and quality of products and services.

Foreign exchange risks

The Group is exposed to foreign exchange risks with its geographical presence in other countries due to currency fluctuations. The Group adopts a natural hedge policy whereby expenses are incurred in the same currency in which revenue is generated. As a result, no significant realised (actual) foreign gain or loss is expected due to the fluctuation of currency exchange.

MANAGEMENT DISCUSSION & ANALYSIS

(CONT'D)

OUTLOOK

Signs are increasingly pointing to a recession for major economies across the world as governments try to manage raging inflation in the face of geopolitical uncertainties from the Russia-Ukraine war, a slowdown in China and lingering effects from the COVID-19 lockdowns of the previous two years that continue to impact the supply chain and post challenges to economies around the world.

The IMF noted in its July 2022 update of the World Economic Outlook (WEO) that disinflationary monetary policy is expected to bite in 2023, with global GDP growing by just 2.9%, lower than the 3.6% global GDP growth in the April 2022 update of the WEO. The IMF also noted that 2022 is increasingly gloomy and uncertain compared with 2021, lowering the global GDP growth forecast to 3.2% in the July WEO update from 3.6% in the April update.

Malaysia's economy is expected to grow at a slower pace in 2023, with Minister of Finance Tengku Datuk Seri Zafrul Abdul Aziz citing slowing growth in the major economies. The Socio-Economic Research Centre (SERC), the research arm of the Associated Chinese Chambers of Commerce and Industry of Malaysia, expects Malaysia's GDP to expand at a more moderate pace of 4.1% as the global economy faces increasing risks of a slowdown. SERC also expects BNM to raise interest rates by another 50 basis points in the first-half of 2023 to 3.0%.

SCIB notes that a combination of policy support and fiscal spending will continue to be implemented to help maintain stable growth as the economy faces a challenging landscape going into 2023. The outlook is also supported by the announcement in June 2022 of the RM50.0 billion MRT3 project, which is Malaysia's largest civil infrastructure project to-date.

This positive outlook for the construction sector is further supported by the continuation or expediting of other large infrastructure projects such as the East Coast Rail Link, MRT2, LRT3, Johor-Singapore Rapid Transit System, Pan Borneo Highway, Central Spine Road, Klang Valley DoubleTracking Phase 2, and Electrified Double Track Gemas-Johor Bahru, which the Group believes will have positive spillover effects through the need for civil engineering works as well as building materials.

For 2023, the Group is cautiously optimistic although we note that the outlook has become more challenging despite a strong pipeline of civil infrastructure projects in Malaysia, government fiscal initiatives, stable employment and wages as well as strong exports. We will continue to leverage on our strengths as a leading producer of precast concrete and IBS, a specialist in small to mid-sized projects and collaborations in innovation and technology to ensure business sustainability as well as to continue carving a niche for ourselves, both in Sabah and Sarawak and in Peninsular Malaysia.