

Management Discussion & Analysis

1.0 BUSINESS OVERVIEW

Salcon Berhad ("Company") is an investment holding company with core investments in water and wastewater Engineering & Construction, Property Development, Technology Services and Transportation Services.

Creating long term shareholder value is a key priority for the Company and its group of companies ("Group") and the Group is committed to grow its business via a 3-pronged strategy of strong project execution, optimising its business portfolio and prudent risk management to achieve operational efficiencies and long-term sustainable growth.

During a series of Strategic Direction Setting and Implementation Workshops held at end 2019 to early 2020, the senior management team together with several members of the Board committed to translate the Company's financial and operational plans for successful implementation and consistent execution through KPIs and measurements. The leadership team also re-aligned the Company direction and revised the Group's Vision, Mission and Core Values to be in line with all our businesses.

Vision

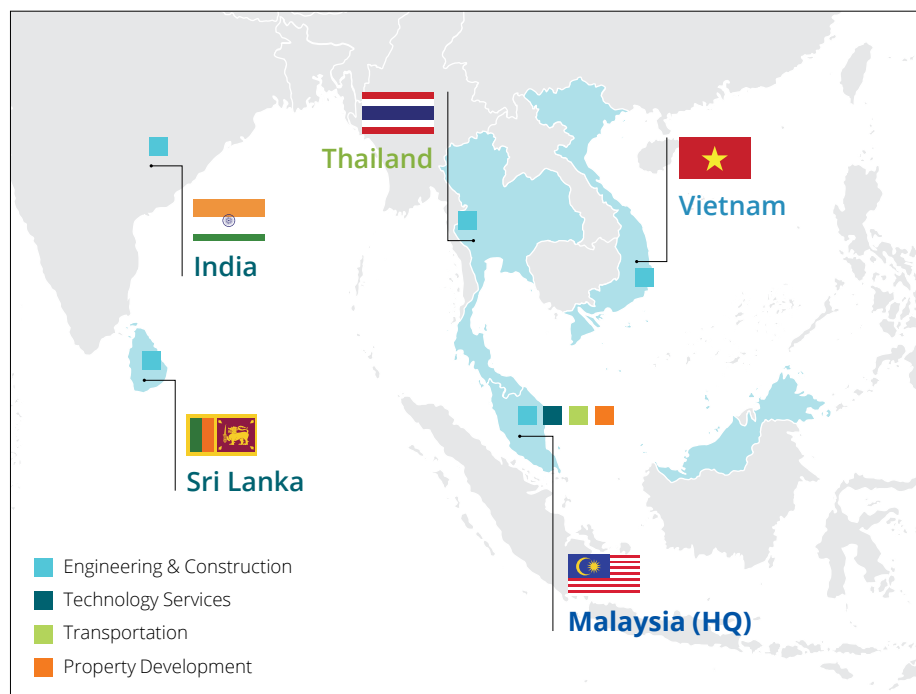
To be a respected & synergistic corporation transforming lives for the better.

Mission

To enrich lives by providing top quality products and services through operational excellence and sustainability.

The Group aims to strike a balance between achieving sustainable growth and maintaining capital discipline to deliver the best returns to the shareholders. Our diversified portfolio of Property Development, Technology Services and Transportation ensures our sustainable growth and value creation.

The Group's headquarters is based in Malaysia with business operations across the Asian Region, which are:



Divisions	Key Offerings
Engineering & Construction	Design and build water/wastewater treatment plants, Operation & Maintenance (O&M) services, Non-Revenue Water (NRW) management and control, customer billing & collection.
Technology Services	Provision of Smart Urban Infrastructure Services for Telecommunication Operators, Enterprises, SME, Property Developers and Government.
Transportation	Provision of transport services ranging from workers transportation for multinational companies such as Intel, Western Digital Media and Paramit in the northern region of Malaysia, inbound and outbound tour services and palm oil product tanker logistic services.
Property Development	Boutique developer targeting niche property development.

A review of the Group's business operations and financial performance for the Financial Year End ("FYE") 2019 is reported below.

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▲ Langat 2 Water Treatment Plant – the largest single water contract in Malaysia water industry

2.0 FINANCIAL PERFORMANCE

The Group reported a higher consolidated revenue of RM191.3 million in FYE2019, compared to RM130.2 million in the preceding financial year, representing an increase of 47%. This was mainly due to higher revenue contribution from the Engineering & Construction division.

However, the Group recorded a higher pre-tax loss of RM 7.33 million compared to RM 1.56 million in the previous year due to one-off expenses comprising of capital gains tax in arrears from the disposal of China assets and impairment of investment in an associate company which accounted for RM14.97 million. The Group's results were also affected by delayed commencement of newly-secured contracts, higher cost incurred

due to delays in certain ongoing contracts and continued losses in its Property Division.

Nevertheless, the Group's balance sheet remains strong with healthy cash reserves of RM 121.3 million which will serve as a foundation from which we can continue to look for growth opportunities while managing costs to ensure the viability of the business. The Group maintained a healthy net gearing of 0.06 times as at 31 December 2019 with borrowings totalling RM24.1 million.

In continuing to reward shareholders, the Company maintained consistent records of annual dividend. The Company proposed distribution of one (1) treasury share for every twenty-nine (29) existing ordinary shares held in the Company in respect of the FYE2019.

The Group remains prudent in maintaining a sound financial position that enables the execution of our strategic objectives in creating value over the coming years. Building on our strengths, we are optimistic that the Group's long-term prospects remain positive.

“the Group's balance sheet remains strong with healthy cash reserves of RM 121.3 million”

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▲ The Langat Centralised Sewage Treatment Plant equipped with Green Technology such as Bio Gas, Solar Energy, Effluent Water Reuse and Rainwater Harvesting

Engineering & Construction Division

Financial Highlights

During the year under review, the Engineering & Construction Division remained the key driver of our operations and largest contributor with a revenue of RM163.5 million which accounted for 85% of the Group's total consolidated revenue. This represents an increase of 59% from RM103.1 million in FYE2018 mainly due to the higher work progress of the Kuala Terengganu Utara Water Treatment Plant project which led to a stronger billings.

In line with the higher revenues, the division's segmental profit before tax ("PBT") edged up to RM11.5 million in FYE2019 from RM6.8 million previously, mainly attributable to recognition of share of profits and variation orders from joint ventures projects.

Operational Highlights

The business activities in the water and wastewater Engineering and Construction Division are driven principally by the Group's subsidiaries, Salcon Engineering Berhad ("SEB") and Envitech Sdn Bhd ("Envitech").

During FYE2019, SEB, together with its joint venture partners, successfully completed the testing & commissioning

("T&C") of Section 1 (Stream B) Works with capacity of 565 million litres per day ("MLD") of the Langat 2 Water Treatment Plant in Dec 2019. The T&C for the balance works is scheduled for completion in the first quarter of 2020. Upon completion, the Langat 2 Water Treatment Plant (Package 2A) will benefit 1.8 million users and provide an additional 1,130 MLD to consumers in Selangor, Kuala Lumpur and Putrajaya.



▲ Rehabilitation and upgrading project of Haiphong Water Supply System in Vietnam is expected to be completed in 2020

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Current major projects on hand include the following:

- 1) Langat Centralised Sewage Treatment Plant, which achieved physical progress of 93.5% and is expected to be completed in 2020.
- 2) Rehabilitation and upgrading project of Haiphong Water Supply System in Vietnam, which achieved physical progress of 85% and is expected to be completed in 2020.
- 3) Design and building of Ambatale Stormwater Pumping Station in Sri Lanka, which achieved physical progress of 73% and is expected to be completed in 2020.
- 4) Kuala Terengganu Utara Water Supply Scheme (KTU), which achieved physical progress of 39%.
- 5) Network Pumping Station in Langat catchment and Langat CSTP upgrading works, which achieved physical progress of 94%.
- 6) Capacity expansion for the Telibong II Water Treatment Plant in Tamparuli, Sabah.
- 7) Supply and Installation of Mild Steel Pipes at Langat 2 and Water Reticulation System in Selangor and Kuala Lumpur – Package 15(4).
- 8) Valachchenai Water Supply Project - Plant and Design Build Contract for Civil Mechanical & Electrical Works.

The Engineering & Construction division is constantly and actively tendering for new projects to replenish its outstanding order books. During FYE2019, the division secured more than RM200 million worth of new contracts, both local and overseas.

In Malaysia, SEB was awarded the Telibong II water treatment plant in Tampuruli, Sabah from Rintis Dinamik Sdn Bhd which secured the project from Jabatan Air Negeri Sabah worth RM124.7 million. The project involves the expansion of the existing plant which will increase its



▲ Construction of Consumer Building and Sabah Electricity Sdn Bhd substation in intake boundary at Telibong II water treatment plant

capacity from 80 million to 160 MLD and is expected to be completed in 2021. Subsequently, SEB secured a RM39.8 million works package from Pengurusan Aset Air Bhd (PAAB) to supply and install mild steel pipes for the Langat 2 Water Treatment Plant and Water Reticulation System – Package 15(4). For non-revenue water (“NRW”) reduction, SEB managed to secure a RM21 million contract from Jabatan Air Negeri Sabah for operating the customer service call centre, monitor and maintaining the District Meter Zones (DMZ), meter reading and billing in Sandakan Water Department.

In Sri Lanka, SEB has also secured a RM51 million sub-contract from China Geo Engineering Corporation to carry out mechanical and electrical work for the Valachchenai Water Supply Project. The project is expected to be completed in 36 months from the date of commencement.

On the wastewater side, the Group via Envitech bagged a RM25.7 million contract from Gamuda Land (Botanic) Sdn Bhd to undertake remedial work of existing vacuum sewerage system at KXG 708 & KXG 722 catchments in Bandar Botanic, Klang. The project is expected to complete in 2020.

Looking Forward

The Engineering and Construction division remains active in securing new projects in Malaysia and overseas. The Group's order book stood at RM1.6 billion comprising water and wastewater projects, both locally and overseas with RM427.6 million balance of works to be carried out as at 31 December 2019 remains healthy and is expected to keep the Group busy over the next two years. Based on our track record and expertise in the water and wastewater sector,

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we look forward to replenish our order books via competitive tenders for both governmental and private sector-led projects.

During the recent Malaysian Budget 2020 announcement, the government has given a spur for more water industry related initiatives. Approximately RM587 million will be allocated for projects in rural areas, out of which RM470 million has been earmarked for Sabah and Sarawak to meet the target 99% access to clean water. The Ministry of Water, Land and Natural Resources has stated the possibility of an increase in water tariff in 2020 once the Tariff Setting Mechanism (TSM) comes into effect. We expect the higher tariffs to translate to more capital expenditure for the pipe replacement works, NRW reduction programme, new water treatment plants and water infrastructure, presenting orderbook building opportunities to the Group. Additionally, the Federal Government has also approved a total of RM1.9 billion for

the implementation of NRW reduction programmes and allocated RM223.35 million for water supply infrastructure development in Selangor to assist water operators in achieving the nationwide NRW target of 31% by 2020 under 11th Malaysian Plan (11MP).

In the overseas market, the Group will continue to strengthen its portfolio in Sri Lanka by tendering for large municipal water supply infrastructure project which are funded by multilateral agencies. The Group will also focus on overseas market such as Vietnam to replenish its order books.

Given the Group's track record and capabilities, we are confident of capitalising on all these opportunities.

Concession Investment Division

The concession for the Binh An water treatment plant located in Ho Chi Minh City, Vietnam with a capacity of

100 MLD ended in August 2019 and was transferred back to the People's Committee of Ho Chi Minh city. For FYE2019, the division recorded a lower PBT of RM2.33 million as compared to RM5.77 million in the previous year. The lower PBT was due to the cessation of the concession.

Property Development Division

Financial Highlights

The Property Division posted a higher revenue of RM7.77 million, a 39% increase compared to RM5.61 million in the preceding year. The division recorded a lower segmental loss after tax ("LAT") of RM1.75 million, a 76% decrease compared to segmental LAT of RM7.14 million in the previous year.

The losses for this division was mainly due to the holding cost of the remaining unsold units of res280 project at Selayang, interest expense on lease



▲ res280 is strategically located in Selayang and is easily accessible to major cities and towns

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liabilities of Belfield Crest at Kuala Lumpur and realised losses on foreign exchange.

Operational Highlights

The Group via its subsidiary, Salcon Development Sdn Bhd disposed its 20% equity in Eco World-Salcon Y1 Pty. Ltd in April 2019 for A\$4.52 million (approximately RM13.25 million). The disposal improved the Group's cashflow position by RM13.13 million and enabled the Group to re-position its financial resources.

Despite the sluggish property market and tighter bank lending to buyers, the Group's small office home office (SOHO) development project res280 in Selayang reached accumulated sales of 84% compared to 78% the previous year due to attractive sale scheme to market the remaining unsold units.

With the weak market sentiment and low household income growth, the division's other property projects have been put on hold pending a review of the development strategy.

Looking Forward

The Group is optimistic to see a modest recovery of property market in 2020 based on the government initiatives to introduce Rent-To-Own Scheme (RTO) in budget report 2020. Through the RTO, RM10 billion financing will be provided by financial institutions with the government's support through a guarantee provision of 30% or RM 3 billion which will indirectly benefit the first-time homebuyers.

The Group will continue to look for strategic partners for potential developments which are aligned with our objectives.

Other Divisions

Transportation

The transportation division, spearheaded by the Eco-Coach & Tours (M) Sdn. Bhd (ECT), operates a total of 142 vans, 38 coaches, 39 MPV, 15 limo vehicles and employs 226 drivers to provide transportation services for its clients which include multinational companies such as Intel, Western Digital Media, Paramit and B Braun Medical.

The transportation division recorded higher revenues of RM17.4 million in FYE2019, representing an increase of 4.2% compared to the revenues of RM16.7 million in preceding year, mainly due to the revenue contribution from its subsidiary, Green Fleet Sdn Bhd ("GF"). This constitutes 9% of the total Group's

total revenue during the year under review. However, the division recorded a LAT of RM0.55 million compared to PAT of RM2.41 million in prior year due to the higher operating expenses.

GF provides palm oil and soy oil product transporting service in Central and Northern region of Peninsular Malaysia for client such as PGEO Edible Oils Sdn Bhd (Lumut), Soon Soon Oilmills Sdn Bhd (Westport), Soon Soon Oilmills Sdn Bhd (Prai) and currently operates 11 units of stainless steel and mild steel bulk tankers.

Moving forward, the division will enhance its tracking system by utilising the Senstrac device to achieve a higher tracking accuracy. The device will be able to provide a GPS/4G location tracking, monitor safety based on driver's behavior and driving pattern and operational control. This will ultimately reduce the operating costs, optimise vehicle usage and reduce carbon footprint in future.



▲ The high quality and comfortable interior of the Semi High Deck Coach used for transporting B.Braun Medical employees

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Technology Services

Spearheaded by Volksbahn Technologies (M) Sdn. Bhd. ("VBT"), the division recorded revenue of RM11.19 million, an increase of 32% compared to RM8.48 million in the previous year. In line with the increase of revenues, the PAT rose from RM0.07 million to RM0.95 million.

The improved performance was contributed by an additional 46 cell sites delivered and fiberised at the stations in FYE2019 resulting in the increase of site rental income for shared infrastructure as well as bandwidth charges.

In FYE2019, the mobile operators which have signed up to VBT infrastructure include U Mobile Sdn Bhd, Celcom Axiata Berhad, Digi Telecommunication Sdn Bhd, Webe Digital Sdn Bhd, Maxis Berhad, NTT Ltd., X86, Symphonet Sdn. Bhd., VC Telecoms Sdn. Bhd. and Fiberail Sdn. Bhd.

The division also provided backhaul services to two new service providers; Allo Technology Sdn Bhd (subsidiary of TNB) and SmartSel Sdn Bhd. Apart from that, VBT has also provided backhaul services to several financial institution such as OCBC Bank, Public Bank Berhad and Bank Negara Malaysia by collaborating with few other service providers.

Moving forward, VBT is exploring with mobile telecommunication companies on leveraging its fiber network for the deployment of 5G coverage in Klang Valley. The plan will be further enhanced by the increase of cell sites utilising the LRT and Monorail track pillars.

In terms of strategic collaboration, VBT looks forward to the opportunities for new developments along the LRT line

and target to become a carrier-neutral data center. Among the developments targeted are Datum Jelatek – LRT Station Jelatek, Ara Sentral – LRT Station Ara Damansara, IOI Stellar Suites – LRT Station Bandar Puteri Puchong and BBCC – LRT Station Hang Tuah.



▲ A 30 meter unipole owned by VBT at Lembah Subang LRT Station

Solar Power Services

Salcon Power (HK) Limited recorded a lower revenue of RM1.07 million, a 55% decrease as compared to RM2.37 million generated in the previous year. This is based on the remaining balance of 459 units of solar photovoltaic electricity generating systems with a capacity 1,390.5 KW after the Group disposed 1,191 units to ACP Solar Limited during the previous financial year.

3.0 BUSINESS OUTLOOK

Impact of COVID-19

Expectations for a better FY2020 have been revised downwards due to the outbreak of COVID-19 which has caused major business disruptions in Malaysia and around the world as a result of travel restrictions and lockdowns to curb the spread of the virus.

In light of the COVID-19 crisis, it is thus important for the Group to uphold sustainability of our business models and ramp up preparedness for volatile times. In this regard, the Group has activated a Business Continuity Plan ("BCP") with clear lines of communication with our employees, suppliers, clients and other third-party in order to minimise any potential negative impacts. Led by the Chief Operating Officer, the BCP articulates work-from-home (WFH) policies and support functions to project sites via a safe, robust and reliable IT infrastructure. Clear communication channels are set up via platforms such as Skype and Zoom to enable agile and responsive communications across all business units together with emergency contact numbers which are accessible throughout this period. At project sites which have stopped working in line with the Movement Control Order ("MCO"), measures and precautions have been taken by the Group to safeguard the security and sanitation of sites and workspaces.

As part of the Group's strategy to pave the way for recovery and to ensure minimal disruption to our supply chain when business commences, the Group has put in place initiatives to make sure the adequate supply of raw materials and services once MCO is lifted. This is achieved through regular

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engagement and communication with our suppliers/sub-contractors to ensure cost optimisation, risk planning and assessment to better manage our resources.

In order to thrive and perform, it is crucial for the Group to align strategically with the new normal that will most likely follow after this high impact COVID-19 event. Recognising the direct impact of COVID-19 on the business operations, the Group will be actively exploring ways to diversify our income and create more revenue resources to grow long term shareholder value through various cost optimisation and portfolio rationalisation strategies.

The Board and Management is committed to Respond, Recover and Thrive to ensure the growth and sustainability of the Group.

Looking Forward

The Group's Engineering and Construction Division, will leverage on its track record, proven capabilities and outstanding portfolio in water and wastewater engineering works to secure contracts to replenish its order books. In Malaysia, key drivers for water investments are the upgrading of ageing water distribution infrastructure to reduce NRW and increase water reserve margins. The Group targets to secure niche NRW related contracts specifically in the Klang valley, where the current operator, Pengurusan Air Selangor Sdn Bhd (Air Selangor) will invest almost RM1 billion over the next three years to replace water pipes as part of its efforts to reduce NRW to 28% by 2020 from the current 35.2%. With the consolidation of the water industry in Selangor almost complete, the Group also stands ready to assist in the upgrading of water



infrastructure on the capacity side water treatment plants as well as distribution to ensure water supply security in the Klang Valley. In Kelantan, Sabah and Sarawak, which have the lowest coverage in the country, the Government has also allocated funds to develop water infrastructure to increase water supply coverage in rural areas.

As for the overseas outlook, the Group remains focussed on building on our competitive strengths and are confident of securing more projects in Sri Lanka and Vietnam given our good track record and successful completion of projects.

Under the Technology Services Division, the Group's performance will be underpinned by the strong demand from the various telecommunication companies to provide fast and reliable bandwidth services for their users. Initiatives by the Malaysian government to launch the 5G Demonstration Project (5GDP) is set to transform the industry

giving the country an edge in the race to implement Internet of Things (IoT) and Artificial Intelligence. This boost in demand will provide the Group with extensive opportunities to fully utilise VBT's fibre optic backbone which is strategically located in the heart of Klang valley and to secure more income generating ventures.

Whilst 2020 will be a challenging year, the Group will continue to manage its risks to deliver sustainable growth and build a stable earnings stream by expanding our business portfolio with emphasis in technology enhancement and talent management. We are confident that with the strategic initiatives in place and continued support of all our stakeholders, the Group will emerge better and stronger.