

HIGHLIGHTS OF SERBA DINAMIK



PEIP Site Visit
Pengerang, Johor



Signing of Collaborative Agreement
between Serba Dinamik Holdings Berhad
& Khokimiyat Khorezm, Republic of Uzbekistan



Sarawak Entrepreneur of the
Year Awards ("EDYS") 2019



Asia Oil & Gas Conference
("AOGC") 2019



MOU between
SD & WASKITA



Kuala Lumpur
Summit 2019



'Penyerahan Bas
Politeknik Kuching'



PIKOM UNICORN
Night ("KLCC")



The Assest Triple A Islamic Finance Awards 2019 Luncheon



Oil & Gas Fiesta Pengerang 2019



Vendor Innovation Partnership Programme 2019



Briefing on VDP & VDPX by Serba Dinamik



Kelestarian Alam Sekitar ("CSR")



Kelestarian Alam Sekitar ("CSR")

Press Conference SD PIKOM UNICORN 2019



Sarawak Oil & Gas Seminar & Exhibition 2019 ("SOGSE 2019")



MDU Signing with PKNM Energy



Sarawak Beyond Paradigm Summit 2019



Beyond Paradigm Summit 2019

All-Asia Executive Team 2019 Special Achievement Awards



World Conference of Information Technology 2019



Onshore Maintenance Construction & Modification Services ("ONMCM")





AWARDS &
RECOGNITIONS

2019

Triple A Asset Award Best New Sukuk

2019

PIKOM Unicorn Tech Awards

2019

Sabah Top Achievers Award

2019

World Bizz Awards

2019

Anugerah Usahawan Bumiputera DUBS

2019

All-Asia Executive Team Asean Most Honored Companies

2019

MLNG HSE Excellence Award

2019

6th Shell Malaysia Safety Awards, Bronze Award Downstream & Integrated Gas Category (SDSB)





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MANAGEMENT

DISCUSSION &
ANALYSIS

FINANCIAL HIGHLIGHTS

The Group once again achieved remarkable performance for financial year ended 31 December 2019 (“FYE2019”). The Management are pleased to present its review of the Group performance for the financial year ended 31 December 2019 together with an overview of financial performance for the preceding 5 financial years ended 2015 to 2018.



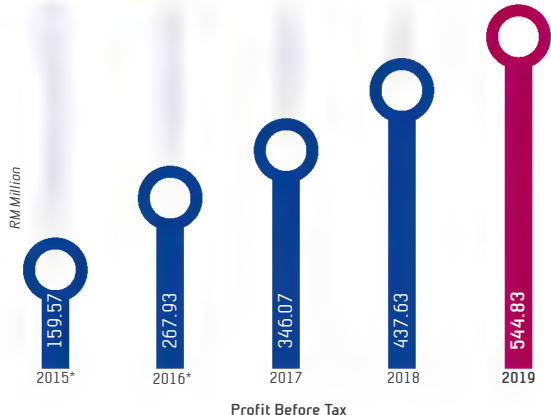
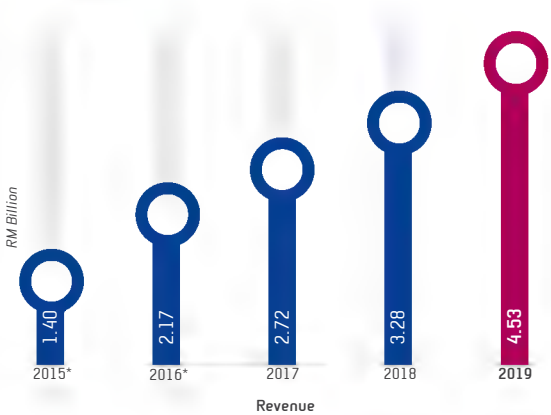
Cumulative Annual Revenue Growth Rate

34.04%



Cumulative Annual PBT Growth Rate

35.93%



Revenue Growth

37.93%



Gross Profit Margin

17.90%



Net Profit Margin

11.00%

FINANCIAL PERFORMANCE

5-YEAR GROUP FINANCIAL SUMMARY

Financial Year Ended 31 December

RM'000	2015*	2016*	2017	2018	2019
Revenue	1,402,942	2,168,328	2,722,318	3,283,174	4,528,621
Cost of contracts with customers	(1,170,483)	(1,794,611)	(2,238,385)	(2,700,850)	(3,717,787)
Gross profit	232,459	373,717	483,933	582,324	810,834
Other operating income	852	1,073	4,074	7,866	8,382
Administrative expenses	(51,201)	(71,845)	(73,637)	(103,724)	(117,372)
Other operating expenses	-	-	(32,271)	(13,134)	(10,801)
Results from operating activities	182,110	302,945	382,099	473,332	691,043
Other non-operating income	2,590	-	-	-	-
Finance income	2,040	3,963	3,135	12,535	21,522
Finance costs	(27,169)	(38,974)	(37,071)	(62,122)	(202,773)
Net finance costs	(25,129)	(35,011)	(33,936)	(49,587)	(181,251)
Share of results of equity accounted associates	-	-	(2,092)	13,880	35,036
Profit Before Tax ("PBT")	159,571	267,934	346,071	437,625	544,828
Tax expense	(3,009)	(22,125)	(41,279)	(44,783)	(46,845)
Profit After Tax ("PAT")	156,562	245,809	304,792	392,842	497,983
Items that will not be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations	41,795	35,412	(61,180)	258	(8,660)
Share of other comprehensive income of equity accounted associates	-	-	-	3,447	(1,918)
Total comprehensive income for the year	198,357	281,221	243,612	396,547	487,405
Profit for the financial year attributable to:					
Owners of the Company	156,723	245,997	308,087	391,477	496,640
Non-controlling interests	(161)	(188)	(3,295)	1,365	1,343
PAT	156,562	245,809	304,792	392,842	497,983
Total comprehensive income attributable to:					
Owners of the Company	198,319	280,596	247,664	395,371	485,984
Non-controlling interests	38	625	(4,052)	1,176	1,421
Total comprehensive income for the year	198,357	281,221	243,612	396,547	487,405

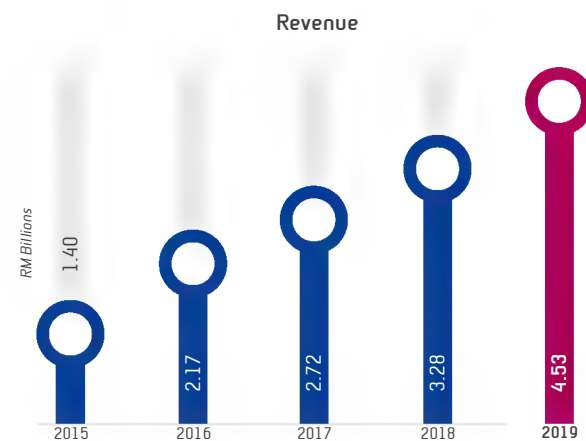
* The figures and values for FYE2015 - 2016 in this section represent that performance of Serba Dinamik Group Berhad, in order to reflect the performance of the group prior to the incorporation of Serba Dinamik Holdings Berhad and the subsequent acquisition of Serba Dinamik Group Berhad on 26 May 2016. For further information please refer to our IPO prospectus available on our corporate website.

* The figures and values for FYE2015 - 2016 in this section represent that performance of Serba Dinamik Group Berhad, in order to reflect the performance of the group prior to the incorporation of Serba Dinamik Holdings Berhad and the subsequent acquisition of Serba Dinamik Group Berhad on 26 May 2016. For further information please refer to our IPO prospectus available on our corporate website.

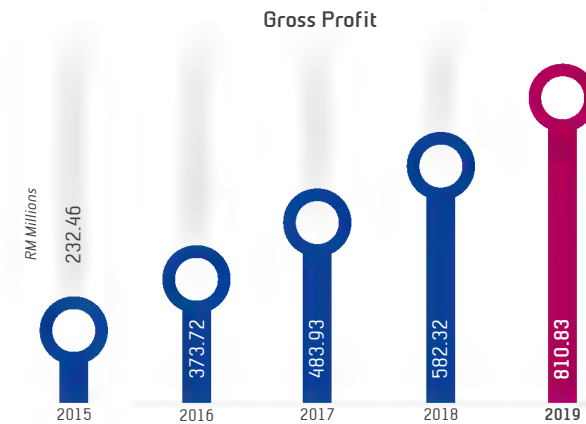
FINANCIAL PERFORMANCE

5-YEAR PERFORMANCE REVIEW

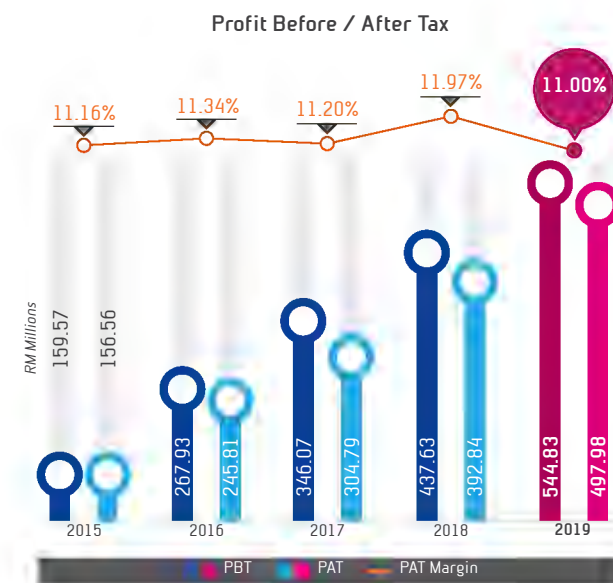
The Group delivered another strong financial performance FYE2019 with significant increase in revenue of RM4.53 billion as compared to RM3.28 billion for FYE2018. The Group's revenue shows Year-on-Year ("YoY") growth of 37.93% and 5-year Cumulative Annual Growth Rate ("CAGR") of 34.04% from FYE2015 to FYE2019. Increase in tendering activities and continuous success in securing renewal of existing contracts both locally and overseas are the main driver for the revenue's growth. Operation and maintenance ("O&M") segment have contributed the highest revenue of 86.01% from the total Group's revenue while Engineering, Procurement, Construction & Commissioning ("EPCC") segment contribute 11.24% through our asset ownership business model and the remaining contributed by other supporting products & services segment. In FYE2019 also shows new geographical present in country such as Uzbekistan & Laos.



The Group made a marked improvement in gross profit from operations from RM582.32 million in FYE2018 to RM810.83 million in FYE2019 shows YoY growth of 39.24% which is in line with the YoY revenue growth of 37.93%. Our gross profit margin also improved registered at 17.90% as compared to 17.74% last year. On CAGR basis from FYE2015 to FYE2019 the gross profit recorded increase of 36.66%. About 87.68% of the gross profit contributed by our O&M segment for the year while the EPCC segment and other supporting products & services segment provided 9.59% and 2.73% of the gross profit for the year respectively.



The Group turned in another set of high earnings with profit before tax ("PBT") and profit after tax ("PAT") for FYE2019 both grew by 35.93% and 33.55% on a 5-year CAGR basis respectively. Our YoY profit before tax increased by RM107.20 million or 24.50% from RM437.63 million in FYE2018 to RM544.83 million in FYE2019. Similarly, profit after tax grew RM105.14 million or 26.76% from RM392.84 million in FYE2018 to RM497.98 million in FYE2019. The growth of PBT and PAT was lower than the revenue growth of 37.93% as a result of higher finance cost incurred which translated to reduce PBT and PAT margins of 12.03% and 11.00%, as compared to 13.33% and 11.97% PBT and PAT margins achieved in FYE2018.



FINANCIAL PERFORMANCE

OUR OPERATIONS

The Group is an international energy engineering group providing integrated engineering solutions primarily to the oil & gas sector, power generation industries, water and utilities sector with global presence in twenty five (25) countries across six (6) different regions namely, South East Asia, Central and South Asia, Middle East, South & North America, Africa and Europe. Our business activities include the provision of O&M services, EPCC works, and other supporting products and services, which include education & training, provision of ICT solutions and services, supply of products and parts, and provision of logistics services. We provide our products and services to engineering companies and contractors, O&G operators, gas processing plants, oil refineries, petrochemical manufacturers, independent power producers and utilities and water treatment plants among others. We are also integrating the Asset Ownership Model into our operations as a natural growth step forward. Under the Asset ownership model, we acquire minority equity stakes in companies within our scope of expertise to secure long-term income from the EPCC of the projects, the long-term O&M service provision to these assets as well as income streams from the equity stake held by the group.

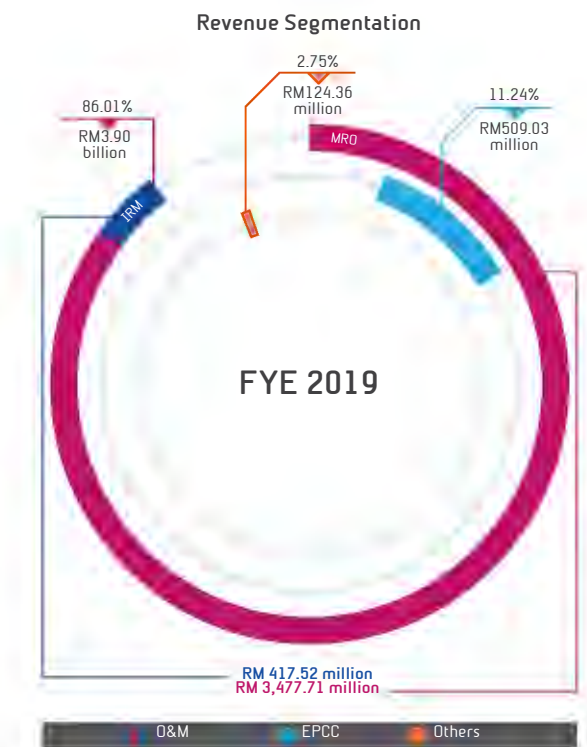
2019 PERFORMANCE REVIEW

The Group's segmental revenue composition remains similar as past years operation for FYE2019 with the O&M segment being the key revenue contributor to the Group. The O&M segment generated RM3.90 billion revenue during FYE2019 showing an increase of 33.01% as compared to RM2.93 billion during FYE2018. Overall, the segment accounted for 86.01% of the total group revenue in FYE2019 as compared to 89.20% in FYE2018.

The second largest revenue contributor in FYE2019 was EPCC segment with a contribution of RM509.03 million, higher than FYE2018's contribution of RM346.81 million. YoY growth for EPCC segment shows an improvement of 46.77% which resulting slight increase in term of contribution from the total Group's revenue. Overall, the EPCC segment's growth for the past 5 years was 42.07% on a CAGR basis.

Other supporting products and services accounted for 2.75% of the total revenue or RM124.36 million during FYE2019 as compared to RM7.81 million in FYE2018 showing a growth of more than 100% YoY which mainly comes from provision of information & communication technology solutions & services and technical training.

IN DEPTH REVIEW OF OPERATIONS



Operational Segments Review

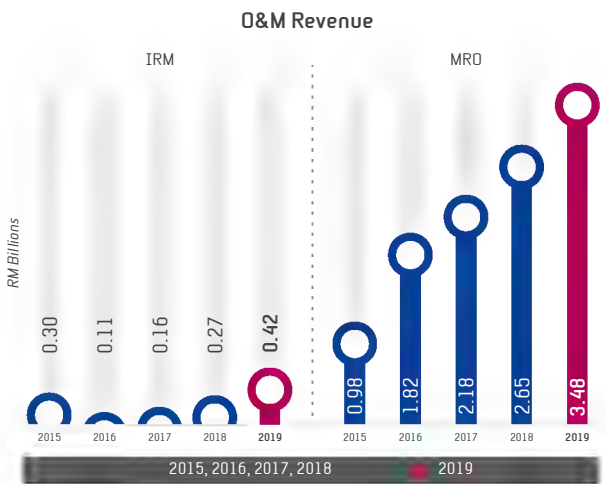
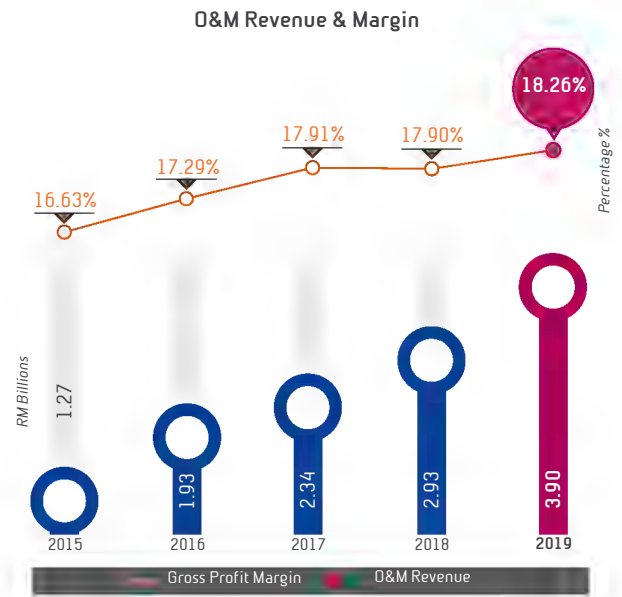
O&M

Over the years, O&M segment has contributed substantial revenue for the Group. The O&M segment contribution increased by 33.01% from RM2.93 billion in FYE2018 to RM3.90 billion in FYE2019. Increased in operations and revenue from both the MRO and IRM subsegments were the main driver for the O&M growth of which shows increment of RM824.08 million and RM142.60 million or 31.05% and 51.87% respectively. Gross profit margins for the O&M segment improved significantly from 17.90% in FYE2018 to 18.26% in FYE2019.

FINANCIAL PERFORMANCE

For FYE2019, MRO operations contribute 89.28% from total revenue of O&M segment. Significant increase in MRO operation in Middle East and South East Asia region translated into overall growth of 31.05% for the subsegments. For Middle East region, Qatar shows the highest growth of which grew from RM681.24 million in FYE2018 to RM1.05 billion in FYE2019 mainly due to new contracts during the year as well as increase work order from existing contracts. While for South East Asia region, Malaysia represent largest revenue contributor with growth of 44.67% YoY.

IRM operations contribute 10.72% from total revenue of O&M segment. For FYE2019, IRM subsegment revenue derived from country such as UAE, Qatar, Bahrain, Malaysia, Indonesia and Uzbekistan. IRM operations show increment in activities from RM274.92 million in FYE2018 to RM417.52 million in FYE2019 primarily due to servicing new contract in Qatar and Uzbekistan for the year.

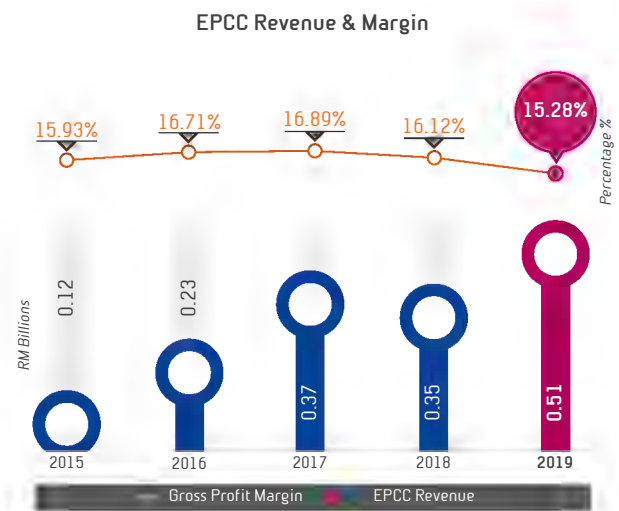


EPCC

FYE2019, EPCC segment has contributed considerably revenue for the Group which contribute of about 11.24% from total revenue. The YoY and CAGR growth for EPCC segment improved by 46.77% and 42.07% respectively. Highest growth YoY for EPCC segment in FYE2019 is derived from our project construction of a 45 Metric Tonne Per Day (“MTPD”) chlor-alkali plant in Tanzania and Malaysia also show upside trend in term of revenue recognised. The Group also recognised it's first revenue contribution from Laos in FYE2019 for our construction on 30 Mega Watt (“MW”) mini hydro-power plants.

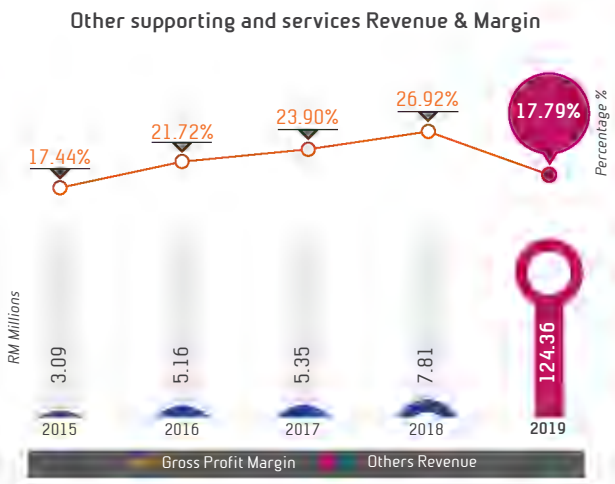
In term of YoY gross margin, EPCC segment showed an improvement from RM55.90 million in FYE2018 to RM77.79 million in FYE2019. As for gross profit margin, EPCC segment showed a decline from 16.12% to 15.28% mainly due to higher gross profit margin in FYE2018 as some of the projects were at design stage.

FINANCIAL PERFORMANCE



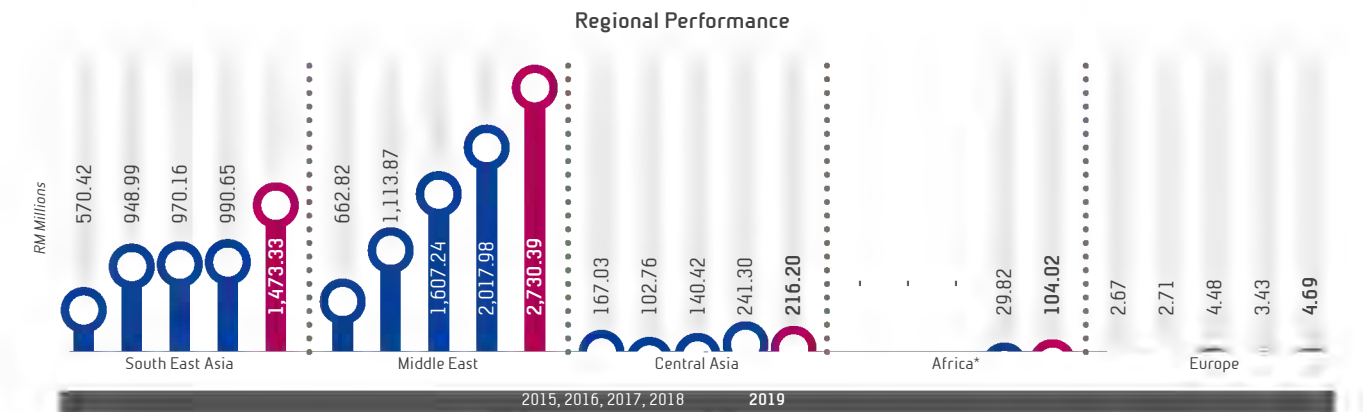
OTHER SUPPORTING PRODUCTS AND SERVICES

Other supporting products and services segment showed exponential increase in revenue in FYE2019 amounting to RM124.36 million compared to RM7.81 million in FYE2018. This segment registered more than 100% YoY and CAGR growth respectively. The revenue mostly contributed by ICT services & products which accounted for 84.29% of total revenue of this segment while 15.71% derived from education & training, supply of products and parts, and provision of logistics services. In term of gross profit, it shows improvement from RM2.10 million in FYE2018 to RM22.12 million in FYE2019, resulting gross profit margin of 17.79%.



GEOGRAPHIC SEGMENTATION

Serba Dinamik currently operates in five (5) geographic regions being South East Asia, the Middle East, Central & South Asia, Africa and Europe. Our revenue had been largely generated from South East Asia, the Middle East, and Central & South Asia with minor contributions from other regions. The Middle East region contributed 60.30% of the total Group's revenue in FYE2019 being the largest revenue contributor for the past four financial years while South East Asia and Central & South Asia which contributed 32.53% and 4.77% to the Group's revenue respectively. In terms of YoY growth, African region in country of Tanzania has achieved fastest growth more than 100% among other regions while South East Asia grew by 48.72%. Europe and Middle East ranked at third and forth in term of YoY revenue growth whereas Central & South Asia growth dropped by 10.40% as compared to FYE2018.



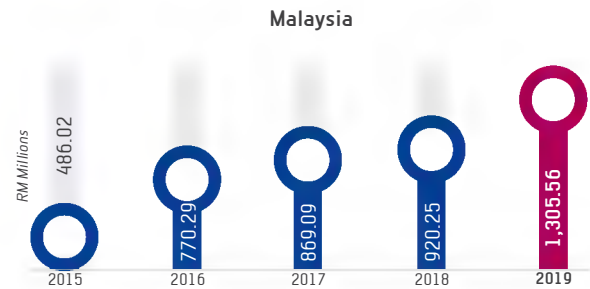
* Revenue recognition in Africa started in FYE2018, no revenue was recognised from the continent in prior financial years.

FINANCIAL PERFORMANCE

SOUTH EAST ASIA

South East Asia’s revenue grew by RM482.68 million or 48.72% in FYE2019 showing a total revenue of RM1.47 billion as compared to RM990.65 million in FYE2018. Our Indonesia operation showed a YoY growth more than 100%. On the revenue contribution angle, Malaysia remain as the largest revenue generating country for the Group of 28.83% while Indonesia contribute 3.43%. During the year, Laos made first revenue contribution of RM12.33 million resulted from revenue recognised for the project of constructing 30MW mini hydro power in Xam Tai District, Houapan Province.

Malaysia operation remain strong showing an overall CAGR of 28.02% over the 5-year period from FYE2015 to FYE2019 and a growth of 41.87% on a YoY basis. The revenue growth for this country was mainly from the local O&M & EPCC segment which showed an overall growth of 43.18% & 38.38% on a YoY basis respectively. For O&M segment, both MRO and IRM activities showed a double-digit growth for the segment.



Indonesia ranked seventh from the total Group revenue for FYE2019. 5-year CAGR showed improvement of 16.50% as compared to 15.65% for period of FYE2014 to FYE2018. The country has generated revenue for the Group amounting RM70.40 million in FYE 2018 as compared to RM155.44 million in FYE2019, with O&M segment being the main driver of the growth during the year continued by EPCC segment.



For Laos, the Group has an EPCC contract with Nam Taep 1, 2, 3 Hydropower Company Limited to design, supply, construction, commissioning and completion 30MW mini hydro power in Xam Tai District, Houapan Province. The Group has recognised revenue of RM12.33 million in FYE2019, being first revenue contribution from this country.

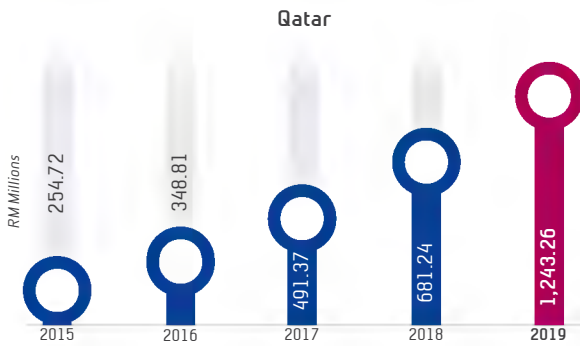


MIDDLE EAST

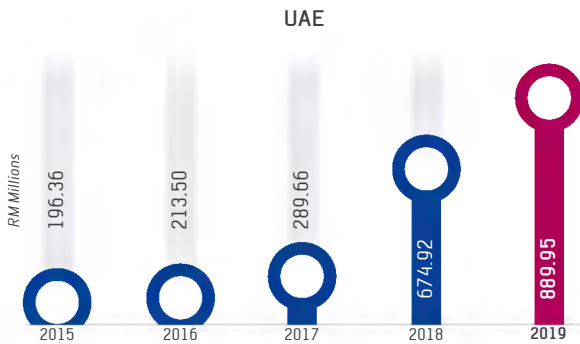
The Middle East region has always been our largest revenue contributor for the past five (5) financial years. The region generated RM2.73 billion in FYE2019 as compared to RM2.02 billion in FYE2018 in terms of amount, however in terms of percentage for revenue contribution, FYE2019 accounted for 60.30% of our total Group’s revenue, slightly down from 61.46% for FYE2018. In this region the Group operates in six (6) countries such as Bahrain, Kingdom of Saudi Arabia (“KSA”), Kuwait, Oman, Qatar and United Arab Emirates (“UAE”). This region is known as the largest oil producers in the world of which for 2018 the region accounted for more than a third global oil production at 33.5%. It has created an opportunity for the Group to expand its presence in the region. This can be evident through increase in contribution growth from 47.25% of the Group’s revenue in FYE2015 to 60.29% in FYE2019 and 5 year CAGR showing healthy growth at 42.46%.

FINANCIAL PERFORMANCE

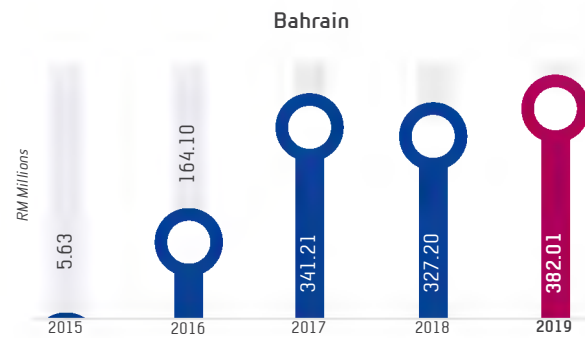
In Middle East region, Qatar was the largest contributor to FYE2019’s revenue in the region accounting for 27.45% of the group’s revenue for the year. The revenue generated from our operation in the country amounted to RM1.24 billion, showing an outstanding growth of 82.50% from FYE2018’s revenue of RM681.24 million. This increase is in line with the overall revenue growth in the country over the past 5 years which came at a CAGR of 48.64%. Despite the blockade imposed by countries within the region, Qatar’s economic remain resilient in 2019 and the Group manages to capture more market share by leveraging those potential opportunities in the country.



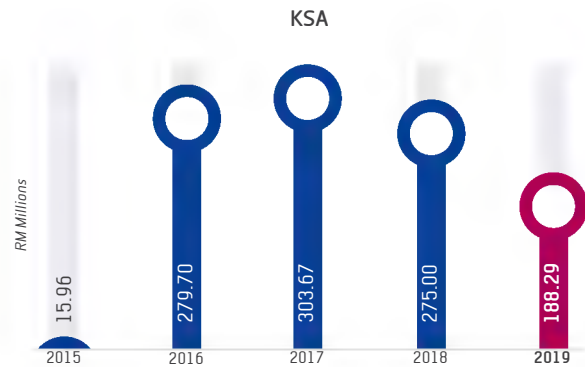
Our second largest revenue contributor for FYE2019 was from UAE. This country has achieved steady growth showing a revenue increase of 31.86% in FYE2019 in comparison to the preceding financial year. UAE generated a revenue of RM889.95 million represents 19.65% of total Group’s revenue. The revenue growth resulted from significant increase in work orders received from our existing contracts as well as a newly secured contract in FYE2019 for both O&M and EPCC segment.



During FYE2019, Bahrain was the third largest revenue generating country in the region with a total revenue generation of RM382.01 million making up 8.44% of the group’s revenue. This shows an increase of approximately 16.75% when compared to last year’s contribution of RM327.20 million. There were no new contracts serviced during the year. However, the Group garnered more work order from existing contracts, and hence the increment in YoY. Overall, Bahrain’s revenue growth during the period from FYE2015 to FYE2019 showed a CAGR of 187.01% over the 5-year period.



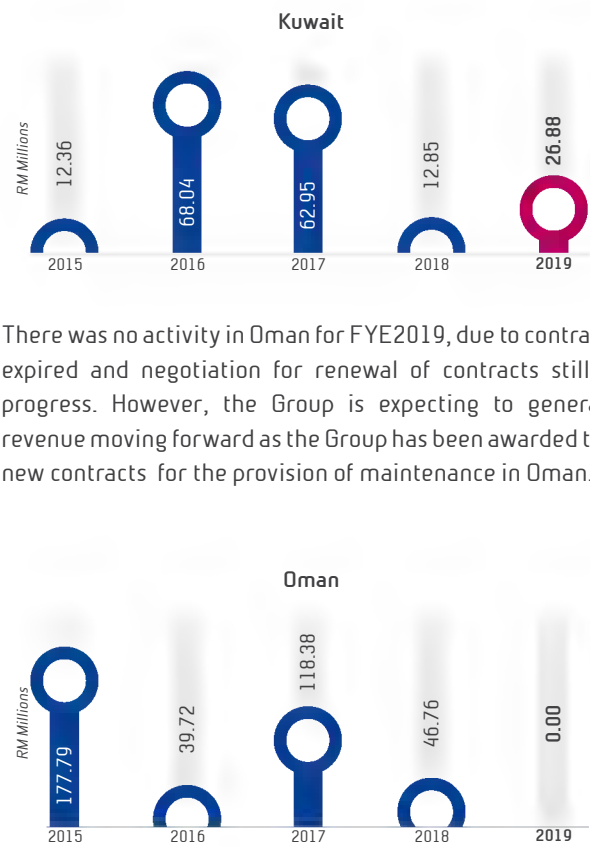
The KSA was ranked fourth in terms of revenue contribution within the region. The Group generated RM188.29 million from KSA in FYE2019, or 4.16% of the Group’s total revenue for the same financial year. It is a decline of 31.53% comparing to FYE2018’s performance due to lesser work order from O&M segment.





FINANCIAL PERFORMANCE

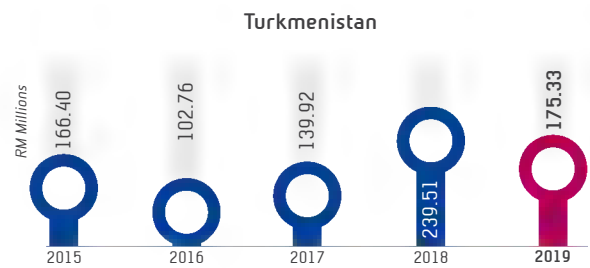
Revenue from country of Kuwait has achieved outstanding growth which is more than 100.00% within the Middle East region for YoY basis. It shows an increase revenue from RM12.85 million in FYE2018 as compared to RM26.88 million in FYE2019, which represents 0.59% of total Group's revenue. The increment of revenue for this country mainly due to additional work order requested for MRO activity in oil and gas industry.



CENTRAL & SOUTH ASIA

Central & South Asia region is the third largest region in contribution to the total Group's revenue. Revenue for this region was derived from our operations in Turkmenistan, India and the newly penetrated market of Uzbekistan. The revenue generated in the region accounted for 4.77% of the Group's revenue for FYE2019. In FYE2019, RM16.55 million revenue generated from ICT solutions and services from country of India.

Revenue generated in Turkmenistan in FYE2019 was recorded at RM175.33 million, showing a decrease as compared to RM239.51 in FYE2018. The reason for the decline in revenue mainly due to reduced work order received during the year for MRO & IRM activity.



For FYE2019 the Group managed to secure new contract in Uzbekistan. The revenue generated from both MRO & IRM activity amounted to RM24.32 million and contributed 0.54% to the total group revenue. The Group also received another contract to develop chlor-alkali plant in Khorezm which will begin preliminary work in FYE2020.



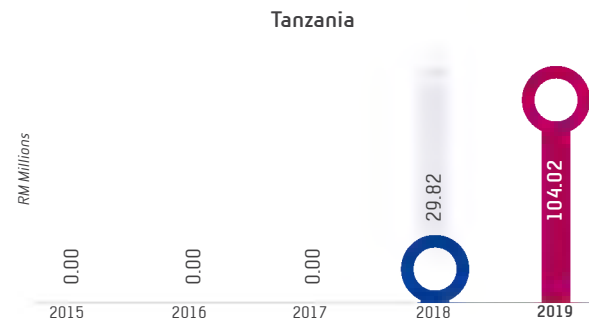
RM16.55 million revenue was generated from country of India FYE2019. The main revenue contributor for this country was through ICT solutions and services. Currently, the Group is servicing two contracts relating to customised solutions involving software development.

FINANCIAL PERFORMANCE



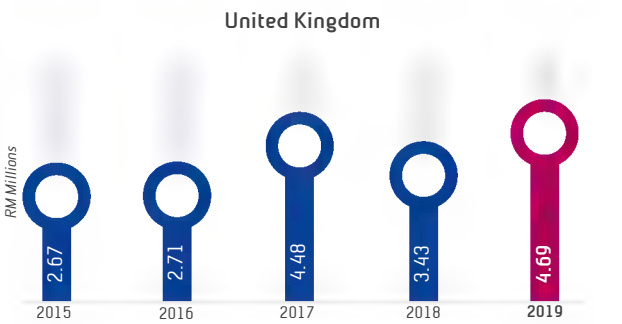
AFRICA

Our revenue from Africa is solely generated from our EPCC contract in Tanzania for the construction and commissioning of a 45 Metrics Toans Per Day ("MTPD") Chlor-Alkali plant. Higher revenue recognised in FYE2019 due to increase in work performed which generated RM104.02 million and contributed 2.30% of the total group revenue.



EUROPE

Our operations in Europe remain predominantly in EPCC and consultancy and are derived from our subsidiary, Quantum Offshore Ltd. and Serba Dinamik International Ltd. (London) - United Kingdom. The revenue generated for FYE2019 contributed 0.1% or RM4.69 million to the total Group's revenue.



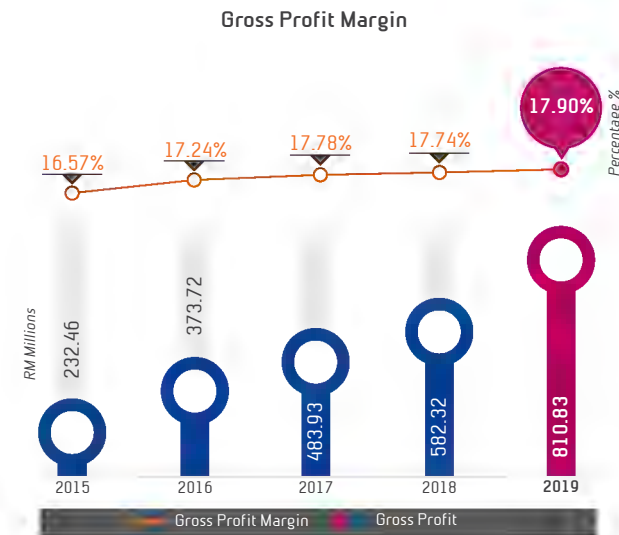
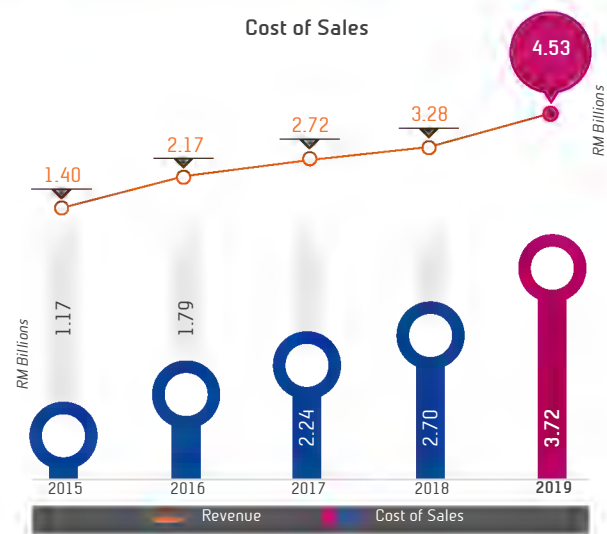
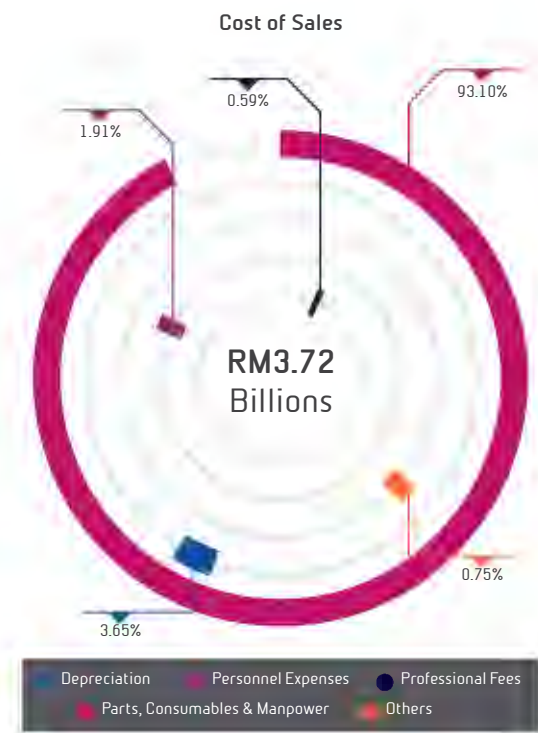
COST OF SALES

Our cost of sales increased by 37.65% from RM2.70 billion in FYE2018 to RM3.72 billion in FYE2019. This increase is in tandem with revenue growth of 37.93% achieved during the same period. Our cost of sales comprises:

1. Parts consumables and manpower, which refers to the essential machine and equipment, spare parts, bolts & nuts, tools, lubricants, and the manpower required for the installation of the above-mentioned items. This is the major component of our cost of sales accounted for 93.10% of the total cost of sales for the year while for FYE2018 accounted for 92.19%.
2. Depreciation of plants, machinery, tools and equipment which are our second largest component in the cost of sales and accounts for 3.65% and 3.08% of the total cost of sales for FYE2019 and FYE2018 respectively.
3. Personnel expenses refer to wages, benefits and compensations paid to our technical staff that perform the services provided to our clients. These expenses amounted to 1.91% of our total cost of sales for the year and 1.76% for FYE2018.
4. Professional fees paid to third party service providers for services outsourced made up 0.59% of the costs of sales for the year and comparatively made up to 1.06% in FYE2018. These services are technical consultancy, analysis and testing services amongst others.

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5. Other expenses comprise various costs such as levies, hiring charges, other payments to regulatory authorities amongst others. These costs amounted to RM27.95 million or 0.75% of the total costs of sales for the year. In FYE2018 other expenses contributed RM51.25 million or 1.90% of the total cost of sales.



ADMINISTRATIVE EXPENSES

The Group incurred RM117.37 million for administrative expenses in FYE2019, showing an increment of 13.16% from RM103.72 million in FYE2018. The ratio of administrative expenses to revenue improved from 3.16% to 2.59% mainly as a result of improved economies of scale and better utilization of existing resources.

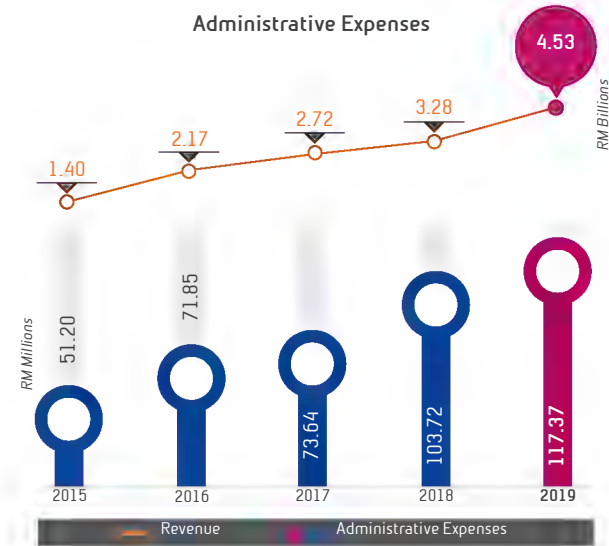
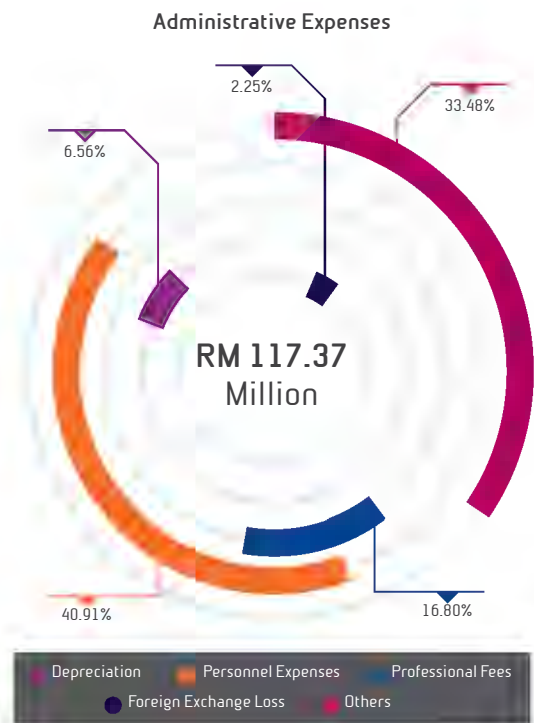
Personnel expenses incurred during the year amounted to RM48.02 million or 40.91% of the total administrative expenses for the year while in FYE2018 showed expenses incurred RM43.44 million or 41.88%. These expenses include wages, salaries and other compensations paid to employees including statutory contributions to retirement and social security funds.

Professional fees paid amounted to RM19.71 million or 16.80% and RM9.91 million or 9.56% of the total administrative expenses incurred in FYE2019 and FYE2018 respectively. These include fees paid to third party professional service providers such as legal consultancy, secretarial & audit services and other advisory fees and professional fees.

Depreciation of buildings, fixtures and fittings, and motor vehicles during FYE2019 amounted to RM7.70 million or 6.56% of the total administrative expenses for the year and FYE2018 accounted for RM6.62 million or 6.39%.

FINANCIAL PERFORMANCE

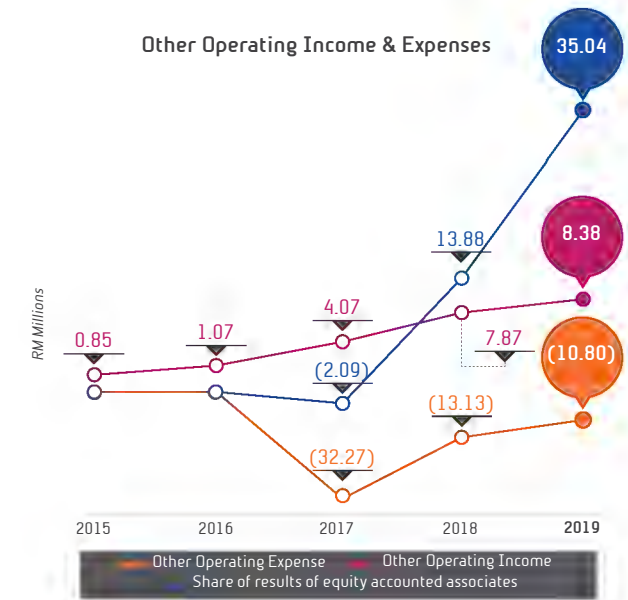
Other administrative expenses in FYE2019 and FYE2018 amounted to 33.48% and 38.80% respectively of the administrative expenses incurred. Other administrative expenses include office expenses, maintenance, transportation, marketing, levies and rentals, utilities amongst other similar administrative expenses.



OTHER OPERATING INCOME & EXPENSES

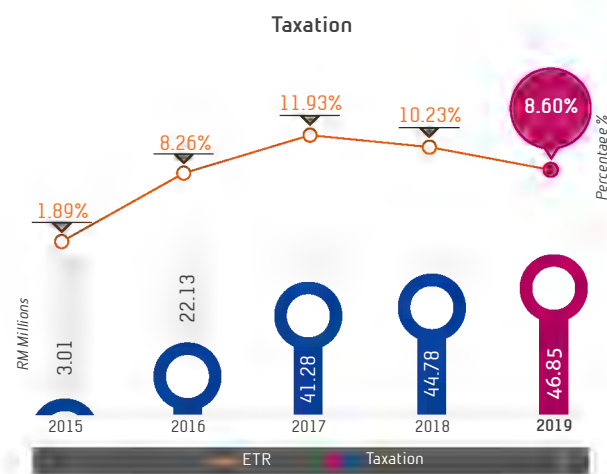
During FYE2019, the group received other operating income of RM8.38 million. This income mostly consists of rental income and foreign exchange gain which accounted for 43.24% and 27.57% respectively meanwhile other operating expenses showed a decrease of RM2.33 million or 17.76% YoY.

On the other hand, share of results of equity accounted associates showed significant growth, with a total income of RM35.1million for FYE2019. This income was generated from our acquisition of a minority stake in CSE Global Ltd ("CSE") and Konsortium KAJV Sdn Bhd. During the year, the Group also has received dividend from CSE amounted to RM10.63 million which contributed positively to the group's cash flow.



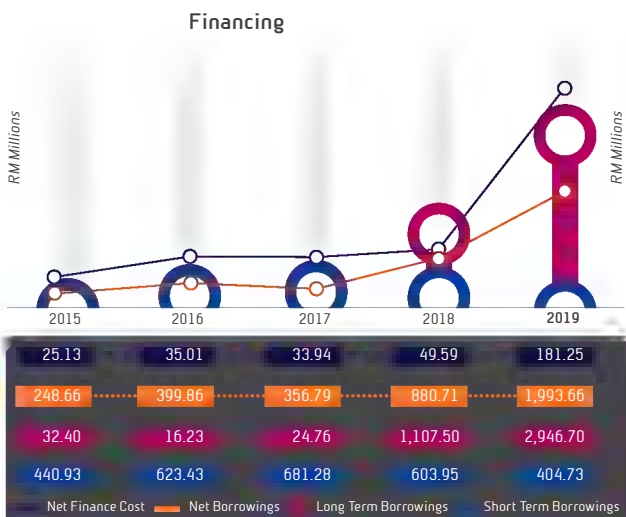
Tax expenses incurred during the year amounted to RM46.85 million as compared to RM44.78 million recorded in FYE2018 showing an increase of 4.60%. The increase is a result of an increase in profit before tax of 24.50% comparing FYE2019 and FYE2018. However, the Group managed to reduce its effective tax rate ("ETR") from 10.23% in FYE2018 to 8.60% in FYE2019. Our ETR is lower than the statutory corporate tax rate of 24% due to our overseas revenue contribution of 66.50% are tax-exempted in Malaysia as it is deemed to be foreign derived income.

FINANCIAL PERFORMANCE

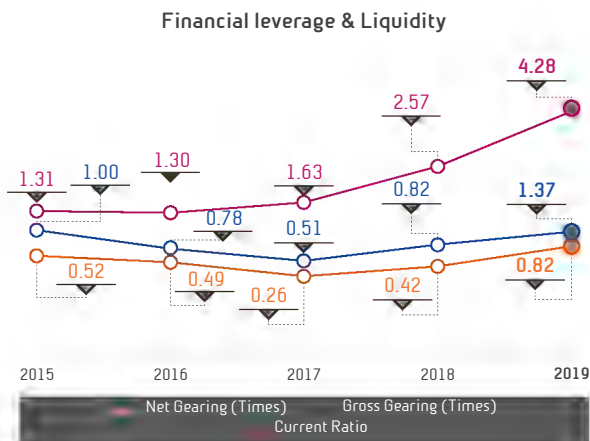


FINANCING & LIQUIDITY

The Group’s total borrowings as at FYE2019 (inclusive of finance lease liabilities which classified as lease liabilities upon adoption of MFRS 16 at 1 January 2019) amounted to RM3.35 billion as compared to RM1.71 billion in FYE2018. The large increase is mainly a result of the group’s issuance of USD denominated Sukuk in order to repay its existing borrowings, finance capital expenditure as well as for working capital purposes. Over the years, the Group relied on short term borrowings to finance its activities as shown in previous financial year ended. Starting FYE2018, reliance on short-terms borrowing has lessen where our short-term borrowings were recorded at RM603.95 million accounted for 35.29% meanwhile in FYE2019, our short-term borrowing has accounted for RM404.73 million or 12.08% of the total borrowings. During the year, the Group issued USD300 million and USD200 million Sukuk Wakalah Programme with a tenure of 3 years and 5.25 years priced at 6.30% and 6.99% respectively.



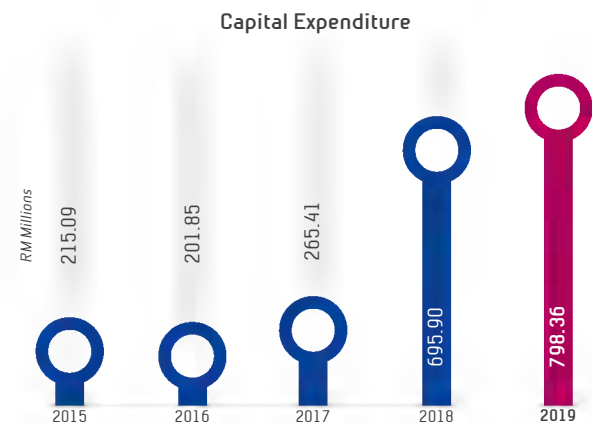
The group’s financial leverage increased in FYE2019 as compared to FYE2018 with a gross and net gearing ratio of 1.37 and 0.82 times respectively. This is mainly due to the issuance of the USD denominated sukuk in the second and fourth quarter of FYE2019 which added approximately USD500 million to our total borrowings before the repayment of existing borrowings as well as increase cash and bank balance as at 31 December 2019 of RM1.31 billion as compared to RM760.79 million for FYE2018. With the two financing exercise, current ratio has improved from 2.57 times in FYE2018 to 4.28 times in FYE2019.



FINANCIAL PERFORMANCE

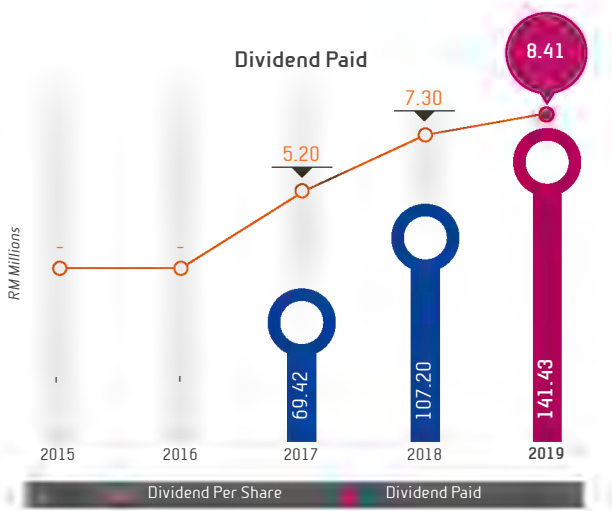
CAPITAL EXPENDITURE

The group’s capital expenditure has been on increasing trend from FYE2015 to FYE2019. The capital expenditure incurred for FYE2019 is RM798.36 million, an increment of RM102.46 million or 14.72% as compared to FYE2018. The increment in FYE2019 is derived from higher capital expenditure acquired in relation to tools & equipment and plant and machinery. This is in tandem with the increase in revenue as the Group will incur new capital expenditure whenever there are new contracts awarded. Part of total additions of property, plant and equipment for FYE2019 are related to construction in progress for our development high end service centre of Bintulu Integrated Energy Hub (“BIEH”) and Pengerang eco-Industrial Park (“PeIP”). As at 31 December 2019, the Group has RM436.44 million of approved and contracted capital expenditure of which is to be utilised for development of our BIEH and PeIP.



CAPITAL MANAGEMENT

The strategic decisions on capital and cash flow management is under the purview of the Group. Capital and cash flow requirements are rigorously prepared and monitored. This ensures timely repatriation and compliance to minimum cash requirement levels set, while taking into account potential business opportunities. The Group also has a dividend policy in place of around 30% from consolidated profit after tax underlines our commitment to ensure sustained level of returns to our shareholders.



CORPORATE EXERCISES

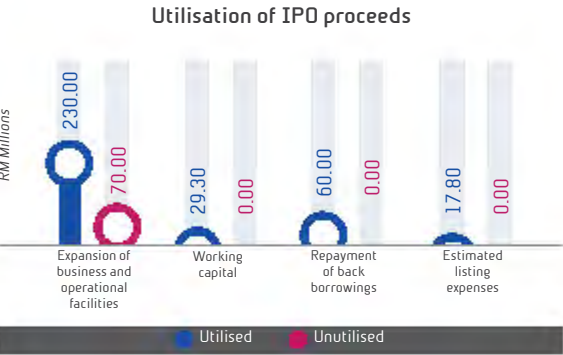
On 8 February 2017, Serba Dinamik Holdings Berhad was listed on Bursa Malaysia’s Stock Exchange main market after its Initial Public Offering (“IPO”) exercise that was aimed to raise RM407.10 million in equity for various purposes as illustrated in detail in our IPO prospectus issued in December 2016. To date, 82.81% of the funds raised have been utilised as illustrated below:

The utilisation of the proceeds as disclosed above should be read in conjunction with the Prospectus of the Company dated 30 December 2016. Post Listing, we have utilised a total of RM337.1 million of the IPO proceeds out of which RM230.00 million was used for expansion of our business as follows:

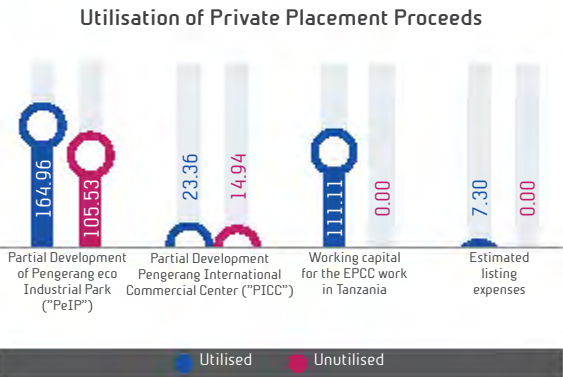
- Approximately RM70.0 million was utilised for the establishment of the new MRO and IRM centre in Bintulu Sarawak.
- Approximately RM20.0 million was utilised for the establishment of a new facility and upgrading of existing facility in Johor Malaysia.
- Approximately RM15.0 million was utilised for upgrading our existing operational facilities in Malaysia and UAE.
- Approximately RM30.0 million was utilised for acquiring our corporate office building in Selangor, Malaysia.

FINANCIAL PERFORMANCE

➤ Approximately RM95.0 million was utilised for investment and acquisition.



Subsequently, the Group undergone private placement fundraising exercise on 30 January 2018 which successfully raised RM427.20 million in equity funding. The proceeds of the raised funds were allocated and utilised as follows:



The utilisation of the proceeds as disclosed above should be read in conjunction with the Announcement made by the Company dated 9 January 2018.



FINANCIAL PERFORMANCE

RISKS AND MITIGATION

Our financial condition and result of operations have been, and are expected to be affected by, but are not limited to the factors in the list below. We have also provided our mitigation plan for each of the risk factors as per the items below:



RISKS



MITIGATION

1

Level of activity in the O&G Industry

Approximately 80.80% of our revenue is derived from our Oil & Gas clients locally and overseas. Although costs incurred for our services are not directly affected by the price of oil, during periods of rising oil prices, the O&G exploration, development and production activities are expected to increase.

Meanwhile, prolonged depressed O&G prices will generally lead to a curtailment in O&G activities and spending in the oil and gas industry.

However, certain activities such as maintenance of industrial assets are, to a certain extent, less affected as operations would still have to continue. In general, industrial assets require more maintenance as they age where they progressively accumulate wear and tear. In this respect, O&M services including MRO and IRM services are required to sustain safety, efficiency, and to satisfy regulatory requirements to ensure production facilities are running productively, efficiently and cost effectively.

2

Impact on margins

Our margins are affected by the direct cost of operations which mainly comprises purchases of materials such as machine and equipment parts, consumables, tools and equipment, services provided by suppliers which include a combination of mechanical, electrical and/or instrumentation work, wages and salaries, and professional fees. The above cost components, save for manpower supply services contract costs, depend on the nature of the contracts and our customers.

We are actively diversifying our clientele base to include clients from other industries within our core expertise. Currently, we are targeting the power generation, water treatment and utilities sectors.

The Group is also expanding its business operations to incorporate the asset ownership model which is mainly aimed at providing stable long-term returns.

On top of that, the Group also fostering ICT solution services and education & training services as part of plan to diversify our business segments.

As per our procurement practices and policies, we constantly review market prices and conditions and try to reduce costs via bulk-orders and timely procurement. We were also appointed by Ministry of International Trade and Industry ("MITI") as a Vendor Development Anchor company thus enabling us to create our own Vendor Development Program ("VDP"). We actively engage with our vendors and suppliers to ensure efficiency and cost reduction on both sides in a manner that helps us manage our costs and helps our vendors grow.



RISKS



MITIGATION

2

Impact on margins (continue)

The Group also have acquired several associate companies such as Sreem Serba Turbines Pvt Ltd, Al Sagar Engineering Group LLC and Al Sagar National Establishment, La Rapida SA, eNoah iSolution India Pvt Ltd, Psicon BV, Geppert GmbH and OMT S.r.l. to helps the Group managing cost effectiveness as these companies has the technology and manufacturing capabilities.

3

Our ability to secure and negotiate for projects and contracts

Our revenue is driven by our ability to secure contracts for our O&M and EPCC segments. Whilst primarily we have built a track record in providing O&M services and EPCC works to customers in the O&G industry in the past, we intend to diversify our customer base to include customers in the power and utilities generation industry. Our revenue growth will depend on our ability to secure both maintenance and EPCC contracts in the O&G, power generation and utilities industries.

We constantly monitor our bidding growth and success rates and compare it to industry and market averages to determine our performance. We currently possess several strength factors that contribute to our competitive advantage in bidding and securing contracts. Our strengths include:

- i. Having 26 years' experience in the industry;
- ii. Having a growing, profitable, public listed company
- iii. Supported by prudent financial track record;
- iv. Being a PETRONAS licensed company in Malaysia;
- v. Having strong records in Health, Safety and Environment ("HSE") and having implemented various safety and quality standards for our operations; and
- vi. Having an experienced management team.
- vii. Strong geographical presence in twenty-five (25) countries across six (6) regions
- viii. Owning high end maintenance service center such as BIEH and PeIP.

FINANCIAL PERFORMANCE



RISKS



MITIGATION

4

Dependence on skilled professionals/engineers

We require certified, skilled and experienced technical professionals to execute the projects and contracts awarded to our Group. Due to supply and demand conditions and competition among other engineering-based companies, the number of personnel with the relevant qualifications and experience in the industry may be limited. Our cost of operations may be higher if we are required to compete for such skilled and experienced technical professionals.

We source and maintain databases and directories for skilled contract workers in the market and their relevant qualifications to be able to recruit the required manpower as and when required. We also have the ability to recruit the graduates of our technical training programmes which are certified by City & Guilds, a vocational education organisation in tile UK offering more than 500 qualifications across more than 80 countries.

The Group also has acquired a University Malaysia of Computer Science & Engineering (“UNIMY”) which focus on upskilling and foster ICT graduates with a global mindset and to ensure readiness to embrace Industry 4.0 challenges. This could help the Group to develop future skilled based leaders for our own workforce in any industries that we are in.

5

Delays in completion of a project or work order for a contract

The revenue derived from a specific project or work order for a contract can be impaired by a number of factors such as delays in accessing a site, work delays due to geotechnical conditions or variations at site, delay in delivery of materials and parts sourced from overseas, for which may not be within our control.

In order to address the risk of delays, our project management team conducts periodic reviews with our customers during the entire phase of a project/contract. We will also hold periodic progress meetings with our customers' management to continuously manage our customers' expectations, work progress and be proactive to address any anticipated issues that may arise

6

Impact of foregin exchange/interest rates on results of operations

We are exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of our Group entities as we do not use any hedging instruments in our daily operations. Significant changes in foreign exchange rates may affect our performance favourably or unfavourably.

Our revenue from overseas projects/contracts is typically denominated in USD. We maintain our cash inflow in a USD denominated bank account, where it will be used to settle the portion of our cost of operations which are payable in USD. This provides us with a natural foreign currency hedge. Nonetheless, any unfavourable movements in the USD exchange rate may adversely affect our profitability.

FINANCIAL PERFORMANCE



RISKS



MITIGATION

7

Overseas operational risks

Changes in political and economic conditions in these countries could adversely affect our financial results. These political and economic uncertainties include, but are not limited to, the changes in political leadership, expropriation, nationalisation, changes in finance/interest rates or tax rates, risks of war and global economic downturn.

We have expanded our presence across twenty-five (25) countries and six (6) regions in an attempt to diversify our portfolio and reduce our exposure to any individual country. We also incorporate significant local participation to leverage on the local expertise and reduce the foreign element thus effectively reducing the risk exposure. We are further expanding our reach via the offices of some of our associates such as CSE Global Ltd and e-Noah iSolution India Pvt Ltd.

8

Implementation of expansion plans to own and operate facilities

Our current business segments comprise of O&M services, EPCC works; and other products and services. We will continue to expand on our asset ownership business model to own, operate and maintain power plants and water utilities. We expect to generate revenue in the form of sales of power and provision of water treatment and other by-products. In addition, we intend to expand our operational facilities in Malaysia and overseas. A protracted delay in the abovementioned plans may affect the implementation of our business plans and consequently our financial performance.

In our asset ownership model, we typically take minority stakes with companies that have the operational experience in each project. By doing so, we leverage on their experience and knowledge as well as our technical know-how to best address delays and other unforeseen events.

FINANCIAL PERFORMANCE

THE FUTURE AHEAD

The International Monetary Fund (“IMF”) in their recent report, global growth is projected at 3.3% in 2020 and 3.4% for 2021, a downward revision of 0.1% for 2020 and 0.2% for 2021 respectively compared to October’s World Economic Outlook. The downward revision primarily reflects negative surprises to economic activity in a few emerging market economies, notably India, which led to a reassessment of growth prospects over the next two years. In a few cases, this reassessment also reflects the impact of increased social unrest. IMF in their recent news also says there is potential drop on growth for 2020 resulted from the coronavirus outbreak which spread over more than 70 countries in the world.

According to Bank Negara Malaysia (“BNM”) outlook, Malaysian economy is expected to remain supported by private sector activity in 2020. However, the growth will be affected by the coronavirus outbreak in the first quarter of the year. The impact will be felt largely in tourism-related sectors, and to a certain extent, in the manufacturing sector through disruptions within the global supply chain and the expected slowdown in PR China. The overall impact on the Malaysian economy will, however, depend on the duration and spread of the outbreak as well as policy responses by authorities. For the year as a whole, growth will be supported by household spending, underpinned by continued income and employment growth amid modest price pressures.

On the local front, the latest Petronas Activity Outlook 2020-2022 (“POA 2020-2022”) outlined the national oil company’s focus on upstream activities. From the report, three (3) subsegments namely the offshore fabrications, marine and support vessels, and maintenance, construction and modification (“MCM”) are expected to be the biggest beneficiaries in the next three (3) years. Other value chains are expected to maintain status quo where activity is concerned include drilling, hook-up and commissioning and decommissioning. MCM covers activities relating to the repair and maintenance of existing topside facilities. Based on POA 2020-2022 report, steady outlook can be expected for MCM activities given the cyclical nature of maintenance activities whilst scope optimisation will continue to be a priority. The Group has been awarded and currently

servicing 2 Onshore MCM contracts in Sarawak by Petronas Carigali Sdn. Bhd.. With these experiences, the Group will be able to leverage the expertise and technical know-how from the existing contracts to secure more MCM projects or activities in future.

Segmentally, the Group believes O&M and EPCC segment will still contribute to the growth of the Group while other supporting products and services segment expected to grow and contribute sizeable revenue which mainly coming from ICT solutions & services and education & training services. More growth is expected from Central & South Asia region while Middle East and South East Asia remain key contributor for O&M business segment moving forward. With the expected completion of our BIEH and PeIP in quarter 2, 2020 and quarter 4, 2020 respectively, the Group expecting more and more new contracts to be secure globally and locally as these facilities are equipped with cutting edge technology such as high speed balancing machine, computer numerical control horizontal and vertical milling center, electrical discharge machine, high precision coordinate measuring machine and others which will be first in Asia. Whereas for EPCC business, the Group is looking into expansion in the other industries such as petrochemical, chemical and power generation in future. For this business segment, the Group is anticipating growth contribute from Central & South Asia as well as Middle East and South East Asia region.

As a global integrated engineering service provider, adoption of Industry Revolution 4.0 (“IR4.0”) plays a vital role in our business model. It helps the Group to create value added solutions to support our core capabilities in O&M and EPCC segment. Technology such as Smart Maintenance could help improving the efficiency and productivity of client’s assets. Traditionally, maintenance services were mainly corrective where fail and fix condition based or preventive concept. New technologies, however, enable increasingly flexible and intelligent maintenance operations automatically recognize indicators of failures or defects, thus opening the door to predictive maintenance. Recently, the Group has secured contract with PT Pertamina Hulu Kalimantan Timur in relation to Smart Virtual Reality HSE Training Centre. The scope of the contract involves virtual reality technology and equipment as well as constructing practical demo room for the customer.

FINANCIAL PERFORMANCE

Another driver for ICT solutions & services segment is mobile application based which the Group has developed internally. Advance mobile application like QwikPay, Third Party Administrator (“MyTPA”), Global Content Exchange (“GCE”), NidCert and EasyBuyBye will help us to tap huge opportunity and potential from consumer market globally. Nowadays, human is interacting through smartphones more than anything. Human spend time more likely on social media, do business, academic research and others on the phone. With this the Group trust mobile application based would be the suitable way to capture new revenue in the current consumer market. The Group also did collaborate with India Institute of Technology Madras and Stanford University (Research Institutions) to help us on research and development on new technology in the market.

On top of that, the Group also look into expanding its education and training services. These services are critical supporting for the Group’s O&M business operations. Education and training services, provides technical training programs that designed to meet the industries need. We have work together with the City & Guilds of London Institute, UK offering two technical training programs namely Certified Rotating Equipment Technician and Advanced Diploma in O&G Operations (Mechanical Maintenance Technician). The Group recently acquired 70% shares of Materials Technology Education Sdn Bhd (“MTE”) to strengthen technical training programs capabilities. MTE is specialising in all Institute of Materials, Malaysia (“IMM”) training and certification programs in Malaysia which are recognized by PETRONAS and other energy operators. Apart from that, the Group recently acquired UNIMY. The purpose of this mainly to enrich education and training services locally and globally with focus on cloud computing, artificial intelligence & big data, cyber security, IoT, coding as well as business technology. We are also confident with this initiative will help to develop future skilled for our own workforce through developing their capabilities, competencies and readiness to serve in the era of IR4.0.

Despite challenges and uncertainties economically as well politically both local and overseas, the Group again deliver another outstanding performance in FYE2019. Double digit growth and growing orderbook achieved during the year set another milestone for us to move forward. Moving

forward, the Group is committed to continue strengthening its position in Middle East and South East Asia while Central & South Asia is expected to provide growth for the Group expansion on presence in Africa and America region also is part of the Group’s plan in order to be a successful global player in the industry. The Group is building its capabilities and track record in various industries. In FYE2019 the Group was awarded with a contract to develop 90 tonne per day chlorine processing plant at the Hazarasp Free Economic in the Khorezm region in Uzbekistan and 26 MW/h steam turbine independent power plant which further add to our portfolio in chemical industries. Last but not least, on behalf of Serba Dinamik’s management, we would like to express our gratitude to all our stakeholders for the continuous support throughout the year.



INDUSTRY
IMPACT ON
OUR BUSINESS

INDUSTRY IMPACT ON OUR BUSINESS

We mainly operate within the oil and gas industry which contributed to a large proportion of our revenue. Within the oil and gas industry, our top five revenue contributing countries include Malaysia, Qatar, UAE, Bahrain and Saudi Arabia. As such, our business is impacted by developments of the oil and gas industry globally, in Malaysia as well as in the Middle East.

STRUCTURE OF THE OIL AND GAS INDUSTRY

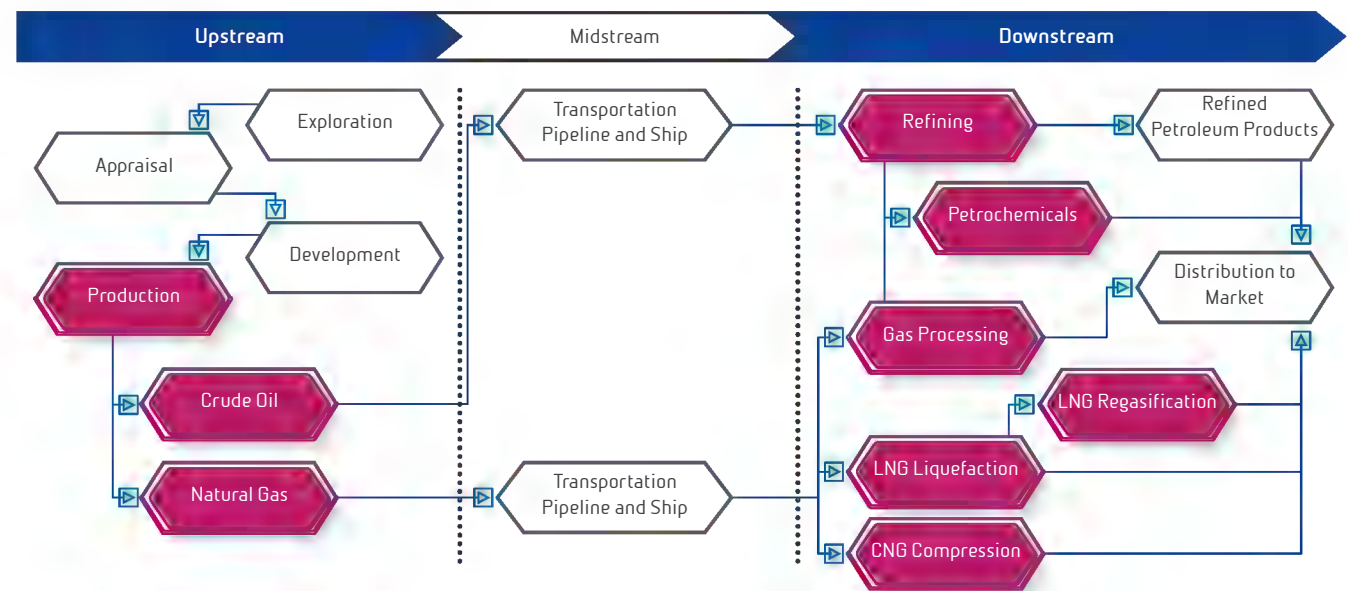
Crude oil and natural gas firstly have to be extracted from the ground, then transported to processing plants and finally processed for use across industries, commerce and the community. The oil and gas industry is structured along types of activities, namely upstream, midstream and downstream activities as depicted in the Figure 4-1.

While all sectors of the oil and gas industry are related and dependent on each other, each sector requires different assets, technologies and skills set to carry out its activities, and faces different challenges, threats and risk factors.

OUR POSITION WITHIN THE OIL AND GAS INDUSTRY

We operate within the **upstream** sector of the oil and gas industry, which comprises exploration, appraisal, development and production activities. Exploration refers to investigating a specific area to determine the existence and assess characteristics of oil and gas deposits. Exploration activities also include appraisal, which is concerned with determining the economic and technical viability of discovered oil and gas deposits. Development activities are carried out to bring an untapped economically viable oil and gas reserve into production or significantly expanding an existing production facility. Production activities are those that are related to the extraction of oil and gas from identified and developed reserves.

Figure 4-1: Our positioning within the oil and gas industry



We operate within these segments of the upstream and downstream sectors of the oil and gas industry

LNG = liquified natural gas; CNG = compressed natural gas

STRUCTURE OF THE OIL AND GAS INDUSTRY

The **midstream** sector is mainly concerned with the transportation of extracted oil and gas from production facilities to refineries and processing facilities. This mainly includes operation of onshore and offshore oil and gas pipelines and transport vessels.

We also operate within the **downstream** sector of the oil and gas industry, which is mainly concerned with refining and processing of oil and gas, manufacturing of petrochemical products, and distribution of processed and refined petroleum products. Refining and processing convert extracted oil and gas into forms and products that can be used by intermediate and final users. Refining of crude oil involves fractional distillation to separate the different constituents of the crude oil to produce refined petroleum products.

Meanwhile, natural gas processing involves the separation and purification of petroleum gases, and liquefaction and compression of natural and petroleum gases to facilitate storage, transportation and usage. Petrochemical manufacturing utilises feedstock from refineries and gas processing plants to produce basic raw materials for further manufacturing, or usable end-products. Some of the petrochemical products include various types of plastics derived from crude oil, and fertilisers such as urea derived from natural gas. Distribution activities are related to the delivery of refined and treated oil and gas products, and petrochemicals to the markets. This includes operation of LNG and LPG vessels, clean and dirty petroleum product tankers, petroleum tanker trucks, domestic gas networks and retail petrol stations.

OUR BUSINESS ACTIVITIES WITHIN THE OIL AND GAS INDUSTRY

We mainly operate within the upstream and downstream sectors of the oil and gas industry as depicted in Figure 4-1. Our diversity in operating in several sectors and segments of the oil and gas industry provides us with two key benefits, namely:

- multiple areas for business sustainability and growth;
- diversify our dependency on any one sector or segment of the oil and gas industry.

While we operate within several sectors and segments of the oil and gas industry, our expertise and services are focused on repair and maintenance of assets, where these assets are commonly used across various sector and segments of the oil and gas industry.

We provide repair and maintenance services for rotating and static equipment used in production activities within the upstream sector, and refining, processing and manufacturing activities in the downstream sector of the oil and gas industry.

Some of the equipment that we provide repair and maintenance services are as follows:

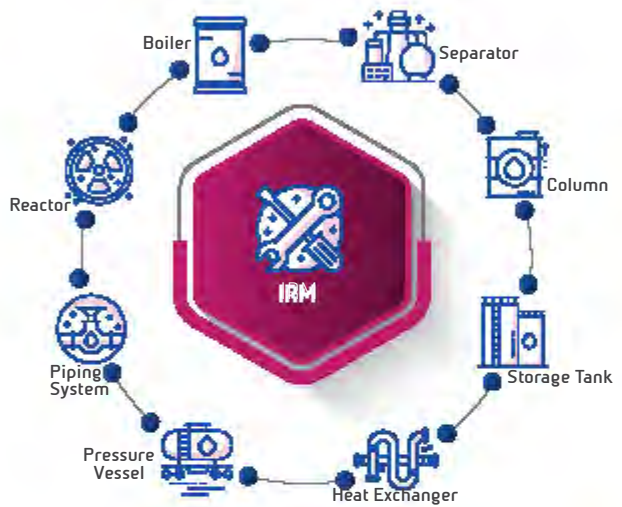
MRO of rotating equipment such as:



STRUCTURE OF THE OIL AND GAS INDUSTRY

Rotating equipment is the workhorse of the oil and gas industry, as well as many other industries. It provides rotary movement, which can be converted to reciprocating movements, to do a very wide range of work.

IRM of process equipment and structures such as:



This range of equipment and structures are commonly referred to as static equipment as they do not move. Process equipment are used in the processing of crude oil and natural gas, as well as manufacturing of petrochemical products. Structures such as piping system provides the means to transfer fluids from one processing equipment to the next or to storage tanks. Other structures include supporting structures to hold up plant facilities and equipment.

In addition to extracting, transporting, processing and manufacturing oil and gas products, some of these machinery, equipment and structures are also used for power generation to provide electricity to run facilities, machinery and equipment. For example, on an offshore production platform, power generation is critical to run all the machinery and equipment, as well as to support the community of workers. Rotary equipment for power generation include gas and steam turbines, diesel engines, electric motors, compressors and pumps; process equipment including boilers, heat exchangers; and structures such as piping systems and support structures.



GLOBAL OIL AND GAS
INDUSTRY

Generally, oil and gas projects are capital intensive, and the economic viability of oil and gas activities is directly influenced by oil and gas prices. **Figure 4-2** depicts the historical global crude oil and liquid natural gas (LNG) prices.

OIL AND GAS INDUSTRY IN THE PAST

The oil and gas industry experienced a major turmoil between 2014 and 2016 with the annual average price of Brent crude oil and liquified natural gas ("LNG") dipping to USD44.05 per barrel and USD7.37 per million British thermal unit ("mmBTU") in 2016 respectively, as compared to average of USD98.94 per barrel and USD16.04 per mmBTU respectively in 2014. The significant decline in oil and gas prices were due to the imbalances in supply and demand where supply extensively exceeded demand. Given the oversupply condition in the oil and gas industry, the Organization of the Petroleum Exporting Countries ("OPEC") and key non-OPEC countries agreed in January 2017 to curtail oil production.

In 2018, the Brent crude oil and LNG regained its momentum to record an annual average price of USD71.07 per barrel and USD10.65 per mmBTU respectively. The recovery of oil and gas prices were supported by the extension of the OPEC agreement which expired March 2020.

RECENT DEVELOPMENTS IN THE OIL AND GAS INDUSTRY

In 2019, the oil and gas industry experienced a slowdown after showing a sign of recovery in 2018. The annual average price of Brent crude oil contracted at a year-on-year ("y-o-y") rate of 9.9% to record average USD64.03 per barrel in 2019, compared to the growth of 30.7% or average USD71.07 per barrel registered in 2018. The lower average price of Brent crude oil was due to the imbalance of supply and demand. Growing production from the United States has restrained the upward trend of Brent crude oil price despite OPEC members continued curtailment of production. In addition, slowdown in oil demand attributed to dampened global economic growth which also weighted down the average price of Brent crude oil in 2019.

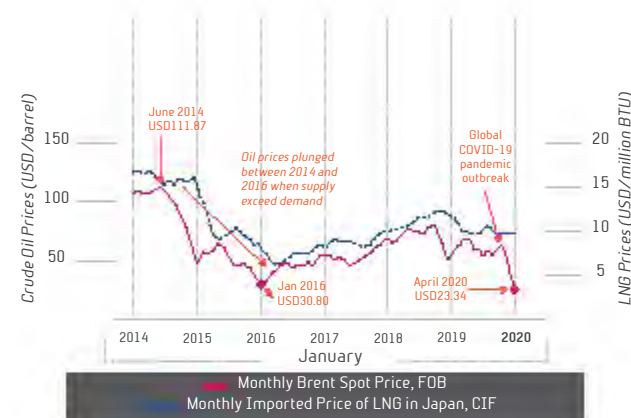
In early 2020, the global markets was hit by the outbreak of the novel coronavirus, COVID-19, causing global economic downturn. Global oil and gas demand fell significantly as several major economies went into lockdown to control the pandemic. The Brent crude oil spot prices fell from a monthly average price of USD63.60 per barrel in January 2020 to an 18-year record low of USD23.34 per barrel in April 2020.

The fall in April prices was also because Russia refused to support OPEC's proposal to cut production in the beginning of 2020. This caused Saudi Arabia as well as several Middle Eastern countries to ramp up production to win market share. However, in April, Saudi Arabia and Russia ended their oil price war and agreed with OPEC to make the biggest oil production cut in history. OPEC, Russia and other producers, known as OPEC+, will cut 9.7 million barrels a day in oil production in May and June 2020, which is equivalent to almost 10% of the global oil supply, and will continue to lower reductions until April 2022, in efforts to stabilise global crude oil markets.

Meanwhile, the annual average price of LNG also showed a moderated y-o-y growth rate of 0.8% to record USD10.73 per mmBTU in 2019, compared to the growth of 23.7% or USD10.65 per million BTU registered in 2019. However, in January and February 2020, LNG price declined to USD9.90 per million BTU for both months.

GLOBAL OIL AND GAS INDUSTRY

Figure 4-2: Global Crude Oil and LNG Prices



FOB = free on board; CIF = cost, insurance and freight.

(Source: World Bank)

IMPACT OF A PROLONGED DEPRESSED OIL AND GAS PRICE REGIME

Given that the global oil and gas prices are sensitive to many factors such as geopolitical and epidemic issues that affect supply and demand and thus prices, our business may also be impacted by any prolonged depressed oil and gas prices.

Our MRO and IRM services are mandatory services that are required to ensure smooth and safe operation of plants and facilities. These services are needed regardless of oil and gas price movements, so long as plants and facilities

are operational. While MRO and IRM are essential services, a prolonged depressed oil and gas price regime will reduce upstream activities as extraction may not be economically viable. This will affect us if new production facilities are not added, or production stops. At the same time, oil and gas producers may cut back on operational expenditure on maintenance services and request service providers like us, to reduce our service fees.

A depressed oil and gas price regime may initially increase demand for petrochemical goods and refined petroleum products as goods derived from them become cheaper. However, over a longer term, this may not hold. In light of the impact of the COVID-19 pandemic, global economies are expected to slow down. Combined with a significant fall in equity markets across the world, global economies are expected to cool significantly at least in 2020.

Countries that depend heavily on oil and gas revenues may run into budget deficits which will compel them to curb spending which in turn will reduce overall demand for goods and services, including manufactured petrochemical goods. This, in turn, will reduce activities in the downstream sector which may impact on our MRO and IRM services.

Nevertheless, it must be noted that production and processing of crude oil and natural gas, as well as manufacturing of petrochemical products, take some time to react to fall in oil and gas prices. This is because it is not simple to just stop or to start-up such plants and facilities. Shut down and start-up procedures are costly and take time.



CHAPTER 04.3

MALAYSIA OIL AND GAS INDUSTRY

For FYE2019, Malaysia remained our largest market in terms of revenue contribution, accounting for 29% of our total revenue where a substantial proportion of this revenue was generated from the oil and gas industry. As such, developments in the oil and gas industry in Malaysia will have an impact on our business.

PERFORMANCE OF THE UPSTREAM OIL AND GAS SECTOR IN MALAYSIA

All of the existing producing oil and gas fields in Malaysia are located offshore. As at October 2019, Malaysia's upstream oil and gas sector is supported by:

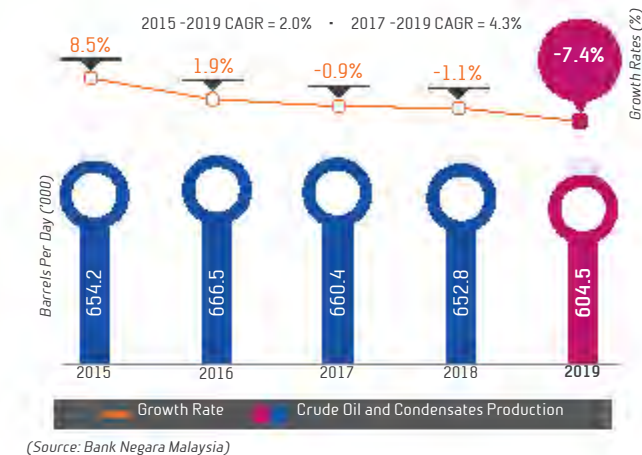
- 353 offshore platforms and 14 subsea structures;
- 726 units of rotating equipment comprising 258 compressors, 187 pumps and 281 power generators;
- 13 onshore crude and gas terminals; and
- 16 floating facilities comprising seven floating production storage and offload, eight floating storage and offload, and one floating LNG vessels.

Figure 4-3: Some of Malaysia's Upstream Facilities



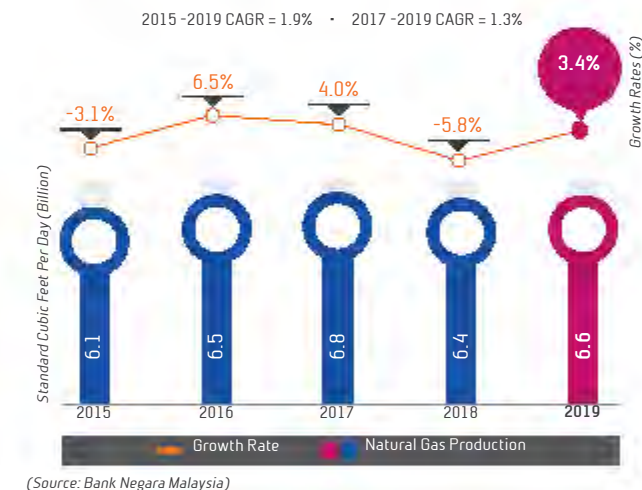
(Source: PETRONAS)

Figure 4-4: Local Production of Crude Oil and Condensate



(Source: Bank Negara Malaysia)

Figure 4-5: Local Production of Natural Gas



(Source: Bank Negara Malaysia)

As we service the upstream sector of the oil and gas industry in Malaysia, all these facilities, machinery and equipment used in production will need to be continually maintained, which will provide us with the basis for business sustainability and growth.

Production output of crude oil and gas would indicate activities in the upstream sector of the oil and gas industry in Malaysia. Production of crude oil and condensates decrease by an annual average rate of 2.0%, whereas local production of natural gas grew at a CAGR of 1.9% between 2015 and 2019. The decline in crude oil production was due to construction constraints and voluntary supply reduction by PETRONAS from 2017 to 2019.

MALAYSIAN OIL AND GAS INDUSTRY

Development of the oil and gas industry in Malaysia remained active despite the oil and gas price fluctuation. Some notable developments within Malaysia's oil and gas industry in 2019 included the following:

- The E6 oilfield in offshore Sarawak commenced production in May 2019. The E6 project comprised the drilling of three 6,000 feet-long horizontal wells that chocks unwanted fluids to help promote oil production from the entire well.
- The discovery of gas at the Lang Lebah 1RDR2 in June 2019. This was the first exploration well in the Sarawak SK410B Project located in offshore Sarawak. The well encountered 252 meters of net gas pay, indicating a multi-trillion cubic feet ("tcf") gas discovery and was tested in carbonate main target reservoir with a completion-constrained rate of 41.3 million standard cubic feet per day ("mmscfd") and 246 barrels per day ("bpd") of condensates.

- Completion of the Gumusut-Kakap Phase 2 Project in September 2016, a semi-floating production system located in offshore Sabah which involved the drilling of four additional subsea tied back to its semi-floating Production System ("GK-Semi FPS"). The four wells are expected to produce an additional 50,000 bpd of oil to the GK-Semi FPS.
- The Layang field in Block 10 offshore Sarawak commenced commercial oil production in December 2019. The field is expected to produce 3,000 bpd of oil and 10,000 barrels of oil equivalent ("boe") per day of natural gas combined.
- Pengerang Integrated Complex with oil refining capacity of 300,000 bpd and petrochemical product production capacity of 3.3 million tonnes per annum ("mtpa") has commenced operation in the fourth quarter of 2019.



MALAYSIAN OIL AND GAS INDUSTRY

PERFORMANCE OF THE DOWNSTREAM OIL AND GAS SECTOR IN MALAYSIA

Crude oil refineries, natural gas processing plants, and petrochemical manufacturing plants are typically asset-intensive and they will require maintenance services such as MRO and IRM services. **Figure 4-6** presents an overview of some of the downstream oil and gas industry facilities owned by PETRONAS in Malaysia, which would require MRO and IRM services.

Figure 4-6: Downstream Oil and Gas Facilities ⁽¹⁾

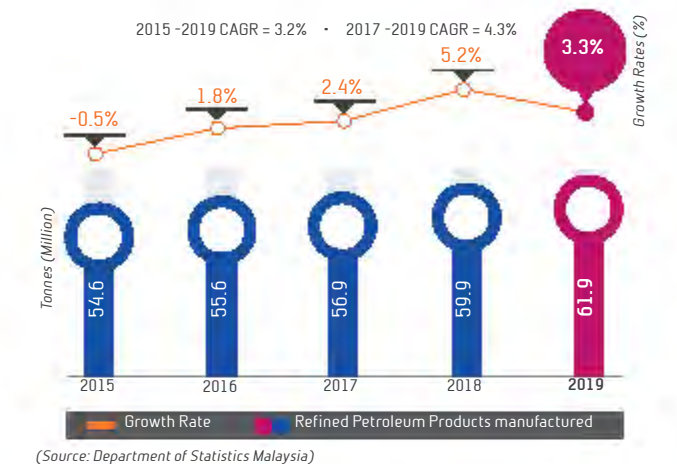


(1) Covers facilities for PETRONAS Group of Companies only
(Source: PETRONAS)

The volume of refined petroleum products would provide some indication of the potential demand for facilities maintenance.

Between 2017 and 2019, the manufacture of refined petroleum products grew at a CAGR of 4.3% from 56.9 million tonnes in 2017 to 61.9 million tonnes in 2019. Increase in the manufacture of refined petroleum products are likely to benefit facility and equipment maintenance service providers.

Figure 4-7: Manufacture of Refined Petroleum Products in Malaysia



In Malaysia, the gas downstream sector is shifting towards market liberalisation to encourage competition and enhance supply reliability. Third Party Access ("TPA") arrangement where independent operators are now allowed to enter the gas market through various operational functions such as, among others, regasification, transportation, import and retail was introduced in the liberalisation exercise.

October 2019 marked a milestone in the liberalisation of the gas industry in Malaysia when the PETRONAS-owned Regasification Terminal Sungai Udang ("RGTSU") in Melaka received its first LNG cargo shipped by Shell Malaysia Trading Berhad under the TPA arrangement. The 150,000m³ LNG cargo was unloaded and regasified in RGTSU before being transported via the Peninsular Gas Utilisation ("PGU") pipeline system to Tenaga Nasional Berhad's power station located in Port Dickson, Negeri Sembilan and Selangor.

The TPA arrangement opens up opportunities for operators in the oil and gas sector such as our Group to participate in the market.

MAINTENANCE, CONSTRUCTION AND MODIFICATION (MCM) ACTIVITIES OUTLOOK

Maintenance, construction and modification ("MCM") activities in the oil and gas industry include scheduled maintenance (planned activities) and corrective

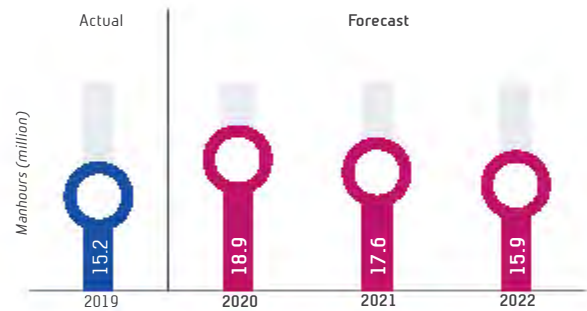


MALAYSIAN OIL AND GAS INDUSTRY

maintenance (unplanned activities) for the offshore and onshore facilities. Our MRO and IRM services fall within the MCM activities.

According to PETRONAS, MCM activities for oil and gas facilities in Malaysia are expected to remain stable. In the medium term, post-2022, a steady outlook can be expected for MCM activities given the cyclical nature of maintenance activities whilst scope-optimisation continue to be a priority.

Figure 4-8: Forecasted Maintenance, Construction and Modification of Offshore Facilities in Malaysia



Note: Forecast includes activities which may have been contracted out at the time of reporting. (Source: PETRONAS)

In December 2018, we secured two onshore MCM packages from Petronas Carigali. These packages cover Sarawak Gas in Bintulu and Sarawak Oil in Miri respectively, spanning over three years with the option to renew for a further two years.

According to PETRONAS, there will be some MCM contracts due for re-tendering over the next few years. This may open up opportunities for our Group to secure more contracts from PETRONAS.

Generally, contracts offered by PETRONAS comprise the following:

- **Pan-Malaysia contracts:** Joint contracts between Petroleum Arrangement Contractors ("PAC") in Malaysia for similar scopes of services and materials;
- **Integrated Upstream and Downstream contracts:** Joint contracts between PETRONAS Operating Units (OPU) for similar scopes of services and material in upstream and downstream;
- **Integrated Downstream contracts:** Joint contracts between PETRONAS downstream OPU for similar scopes of services and material; and
- **Upstream and Downstream Individual contracts**

PETRONAS MCM contracts that are due for re-tendering in the next few years are as follow:

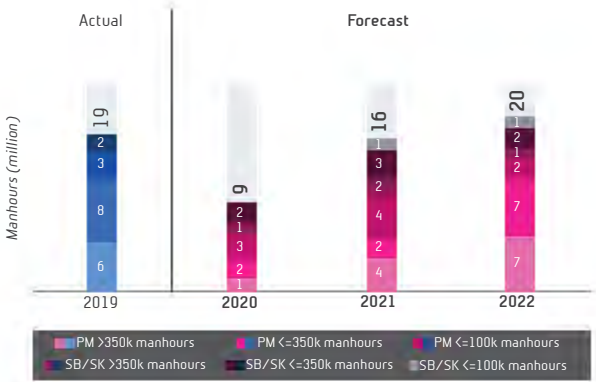
Type of Contract	Scope of Contract	Year of Re-tendering
Upstream Individual Contract	Onshore MCM	2021
Upstream Individual Contract	Offshore MCM	2022
Pan-Malaysia Contract	Offshore & Onshore MCM	2023

MALAYSIAN OIL AND GAS INDUSTRY

PLANT TURNAROUND ACTIVITIES OUTLOOK

In addition to scheduled and unscheduled maintenance, we also participate in plant turnaround exercises. Plant turnaround is carried out periodically where the entire onshore facility will shut down for total inspection, repair, maintenance and overhaul of facility, machinery and equipment. Plant turnaround of major facilities are mandated by government regulation. Depending on the type of facility, plant turnaround is carried out every three or five years to obtain renewal of Certificate of Fitness. Turnaround activities include, among others, MRO of rotating equipment, IRM of process equipment and structures, process control and instrumentation, and electrical devices and equipment.

Figure 4-9: Forecasted Plant Turnaround Maintenance in Malaysia



Note: Forecast includes activities which may have been contracted out at the time of reporting. (Source: PETRONAS)



MIDDLE EAST OIL AND GAS INDUSTRY

MIDDLE EAST OIL AND GAS INDUSTRY

For FYE 2019, 60% of our total revenue was derived from the Middle East, most of which were from the oil and gas industry. Qatar, United Arab Emirates ("UAE"), Bahrain and Saudi Arabia continue to be our top revenue contributors in the Middle East region. As such, developments in the oil and gas industry for these countries may have an impact on our business.

PERFORMANCE OF THE UPSTREAM OIL AND GAS SECTOR IN THE MIDDLE EAST

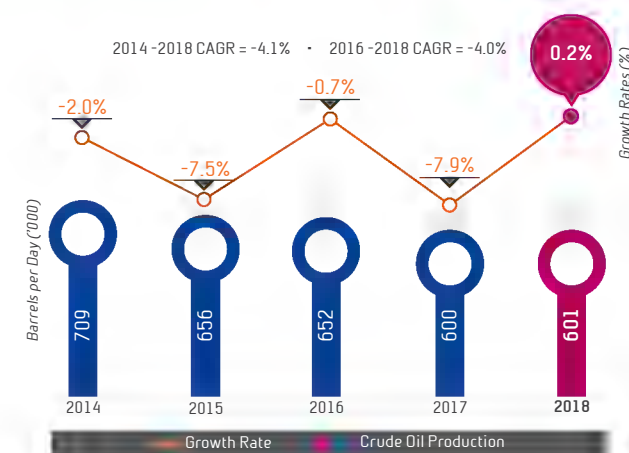
Middle East maintained its strong position as one of the biggest oil and gas producers at the global level despite fluctuation in oil and gas prices. In 2018, the production of crude oil from the Middle East was 25.7 million barrels per day ("mbpd"), which accounted for 34% of the total global crude oil production.

In terms of production by region in 2018, crude oil production in Saudi Arabia, UAE and Qatar picked up pace to record a y-o-y growth in production of 3.6%, 1.4% and 0.2% as compared to -4.8%, -3.9% and -7.9% in the previous year. Meanwhile, crude oil production in Bahrain recorded a decline at a lower rate of 1.0% in 2018, compared to the decline of 4.9% in the previous year. (Figure 4-10 to 4-13)

Between 2014 and 2018, natural gas production in Middle East grew at a CAGR of 4.2% from 582.7 billion cubic metres ("bcm") in 2014 to 687.3 bcm in 2018. Natural gas production in Qatar picked up pace to record a y-o-y growth of 1.8% in 2018 after recording two years of decline in 2016 and 2017. Natural gas production in Qatar, UAE, Bahrain and Saudi Arabia registered a CAGR of 0.9%, 5.2%, 0.2% and 3.6% respectively between 2014 and 2018 (Figure 4-14 to 4-17).

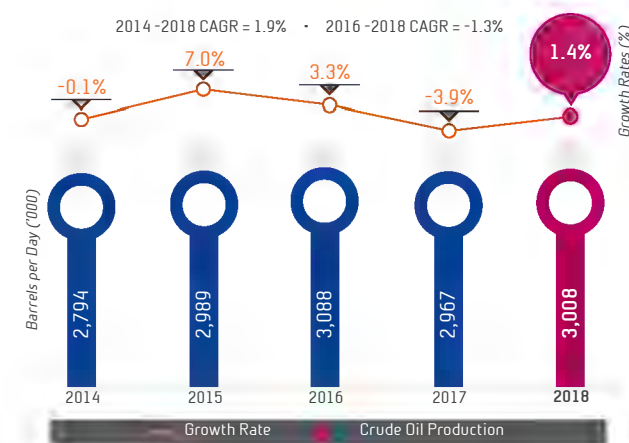
In 2019, the overall oil demand in the Middle East recorded a growth of 1.0%, showing sign of strength regaining from the decline of 0.6% in the previous year due to economic challenges including subsidiary removal, substitution plans, geopolitical issues and policies related to energy efficiency.

Figure 4-10: Crude Oil Production in Qatar



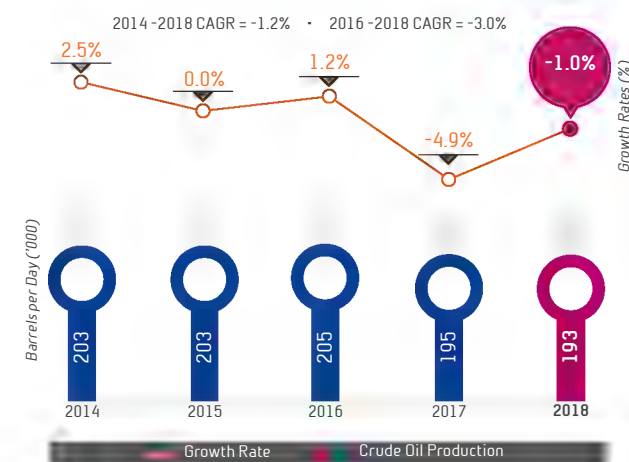
(Source: OPEC)

Figure 4-11: Crude Oil Production in UAE



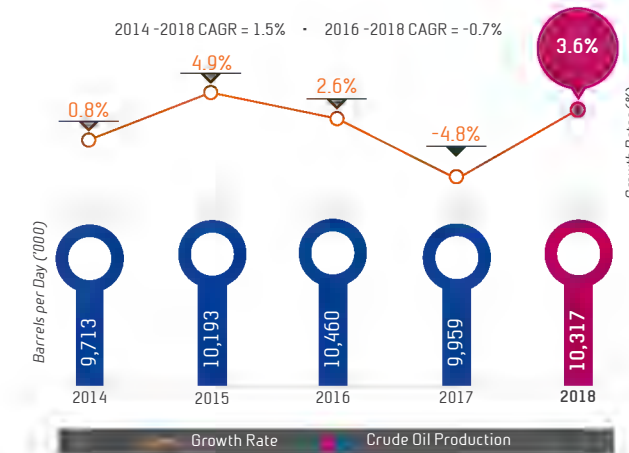
(Source: OPEC)

Figure 4-12: Crude Oil Production in Bahrain



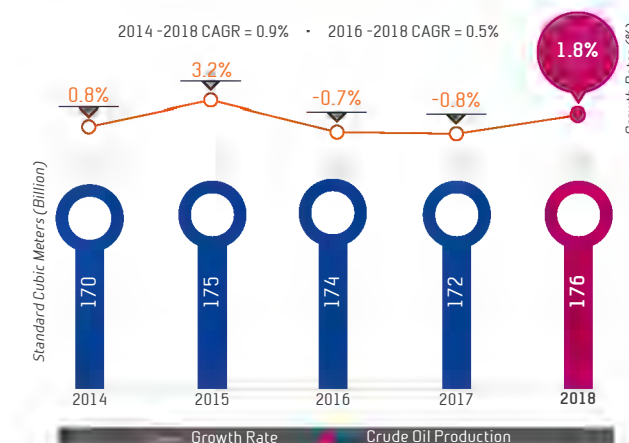
(Source: OPEC)

Figure 4-13: Crude Oil Production in Saudi Arabia



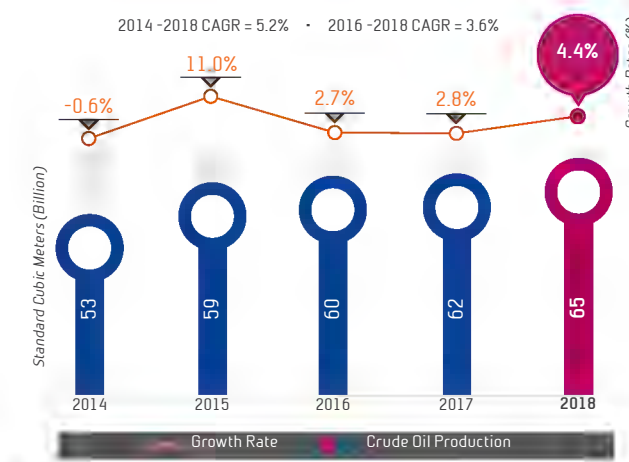
(Source: OPEC)

Figure 4-14: Natural Gas Production in Qatar



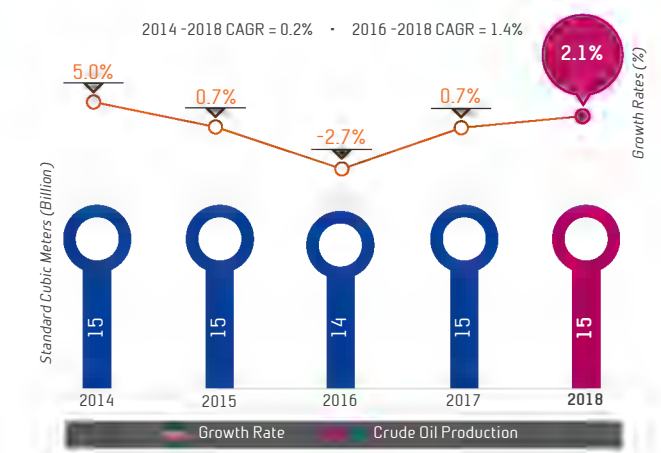
(Source: BP)

Figure 4-15: Natural Gas Production in UAE



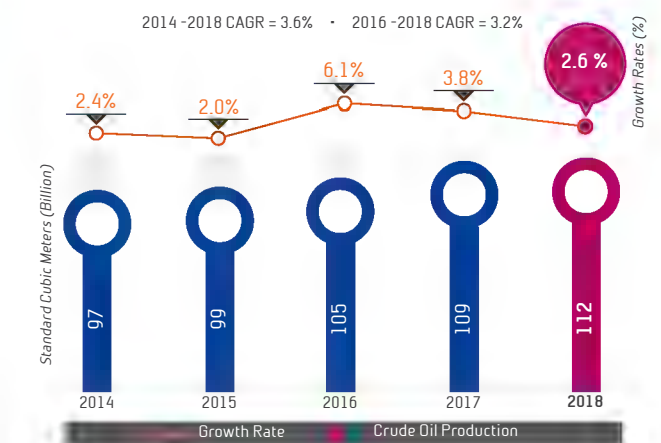
(Source: BP)

Figure 4-16: Natural Gas Production in Bahrain



(Source: BP)

Figure 4-17: Natural Gas Production in Saudi Arabia



(Source: BP)

Moreover, OPEC is expecting a higher y-o-y growth of 1.2% on oil demand in the Middle East, driven by transportation fuels, particularly gasoline and industrial fuels, predominantly diesel and residual fuel oil. Similarly, gas demand in the Middle East is also expected to grow driven by the large-scale addition of water desalination plants in the region.

In 2019, some notable developments within the oil and gas industry in the Middle East include the following:

- ▶ Petro Rabigh Integrated Refinery & Petrochemical Complex Phase II in Saudi Arabia with a project

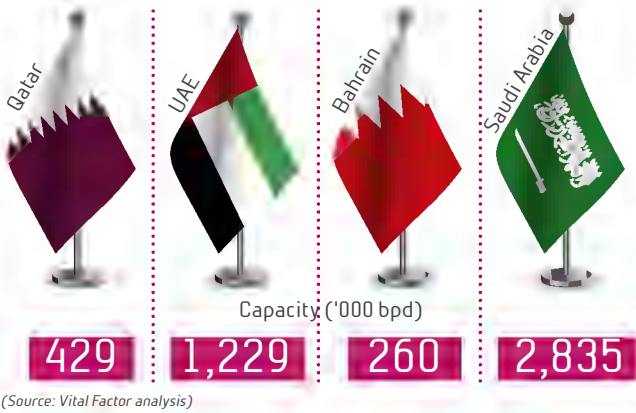
MIDDLE EAST OIL AND GAS INDUSTRY

CHAPTER 04.5 — POWER GENERATION INDUSTRY

value of USD9.4 billion. Phase II of this development focuses on the expansion of the existing ethane cracker and aromatics complex as well as the construction of at least 15 downstream chemical production plants.

- ▶ Jazan-Grassroots Export Refinery in Saudi Arabia with a project value of USD9 billion for the construction of a refinery with an associated marine terminal in southwest Saudi Arabia. The refinery facility is expected to have a capacity of 400,000 bpd of oil.
- ▶ Abu Dhabi Onshore Oil Production Capacity Increase Project in UAE with a project value of USD7.5 billion aims to increase Abu Dhabi's onshore oil production capacity from 1.4 mbpd to 1.8 mbpd.
- ▶ Al Fadhili Gas Plant in Saudi Arabia which with a project value of USD6.5 billion is expected to have a processing capacity of 2.5 billion cubic feet per day ("cfpd") of sour gas. The construction of the plant is conducted in three engineering, procurement and construction ("EPC") packages namely Package 1 for the construction of main processing facilities, Package 2 for the construction of Sulphur Recovery Unit and Package 3 for the construction of offsite and utilities. A pipeline package is also included in this project.

Figure 4-18: Crude Oil Refineries Capacity



PERFORMANCE OF THE DOWNSTREAM OIL AND GAS SECTOR IN THE MIDDLE EAST

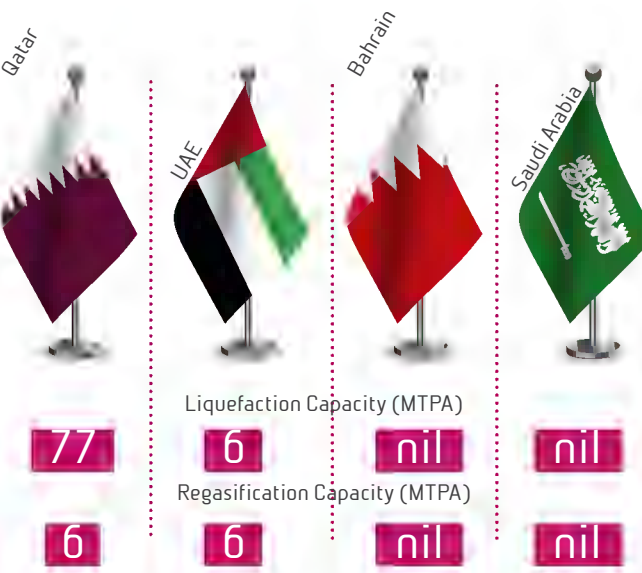
The Middle East oil and gas industry has been shifting its focus from the upstream sector towards the downstream sector to strengthen their portfolio for international sales amid weak crude oil price.

Between 2014 and 2018, the output of petroleum products in the Middle East grew by a CAGR of 4.4% from 6.8 mbpd in 2014 to 8.0 mbpd in 2018.

We provide MRO and IRM services to the downstream sector including crude oil refineries as well as LNG liquefaction and regasification facilities in the Middle East. As such, the size of such plants would be directly relevant to our business, especially in the countries that we provide MRO and IRM services.

Figure 4-18 and 4-19 shows the estimated total capacity of crude oil refineries as well as LNG liquefaction and regasification plants in some of the Middle East countries served by our Group:

Figure 4-19: LNG Liquefaction and Regasification Plant Nameplate Capacity



We also operate within the power generation industry, especially in Malaysia and most recently in Laos. As such, our business is, to a certain degree, driven by developments in the power generation industry in these countries.

GLOBAL

Power generation activities generally involves equipment and/or facilities which require maintenance services. As such, a positive outlook on the installed power generating capacity is likely to drive demand for power generation plant maintenance services, thus benefiting our business. Between 2018 and 2030, total installed power generating capacity of the Asia regions, Middle East and global market are forecasted to grow at a CAGR of 3.7%, 3.0%, and 2.6% respectively.

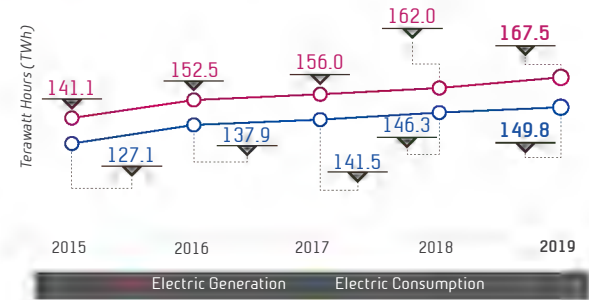
MALAYSIA

We are involved in the power generation industry in Malaysia through our acquisition of minority interest in several small hydropower plants in Sabah, as well as in a biogas power plant company. Therefore, any positive demand and outlook of the power generation industry, most particularly renewable energy in Malaysia would be in our favour.

Electricity generation in Malaysia grew in line with consumption level and is sufficient to cater to local electricity demand. Electricity consumed in Malaysia is locally generated and do not rely on import from other countries. Between 2015 and 2019, electricity generation and consumption grew with a CAGR of 4.4% and 4.2% respectively (Figure 4-20). As at 2019, electricity generation stood at 167.5 Terawatt hours ("TWh"), exceeding total consumption by approximately 17.8 TWh.

According to the Energy Commission Malaysia, demand for electricity is projected to grow by 1.8% per annum between 2020 to 2030. Over the same period, 9,321 megawatt ("MW") of additional capacity is required to meet demand growth, replacing retiring plants and ensuring system reliability, with the electricity reserve margin projected to reach below 25% by 2030.

Figure 4-20: Electricity Generation and Consumption in Malaysia



(Source: Department of Statistics, Malaysia)

Based on the approved Generation Development Plan (2020-2030), power generation plants with total capacity of 11,610 MW will retire, whereas new power generation plants (combined cycle gas turbine, open cycle gas turbine and renewable energy) with total capacity of 17,732 MW will come on stream by 2030.

DEVELOPMENT OF THE POWER INDUSTRY IN MALAYSIA

The power industry in Malaysia is shifting towards liberalisation phase to encourage participation from the private sector. Deregulation of the power industry began with the permission of independent power producers ("IPP") to cater to the growing power demand through entering a Power Purchase Agreement ("PPA") with the utility companies including Tenaga Nasional Berhad ("TNB"), Sabah Electricity Sdn Bhd ("SESB") and Sarawak Electricity Berhad ("SEB"). The PPA allows IPPs to sell electricity generated to utility companies at an agreed rate throughout the agreed period.

Malaysia Electricity Supply Industry 2.0 ("MESI 2.0") masterplan launched in 2019 promoted renewable energy as well as liberalisation of the power sector. The plan to introduce non-government participants in the power industry included, among others, peer-to-peer ("P2P") trading which allow third party access to the power grid for trading of renewable energy to any power consumers. The Budget 2020 also liberalises the electricity market by shifting from the current power purchase system to an open market system.



POWER GENERATION INDUSTRY

Moreover, according to the mid-term review of 11th Malaysia Plan, the government is targeting to provide electricity supply to an additional 41,160 houses to achieve 99% electricity coverage in rural area by 2020.

Liberalisation of power industry as well as the government’s initiatives to increase electricity coverage will likely enhance development of the industry and augurs well with operators providing maintenance services to power generation plants.

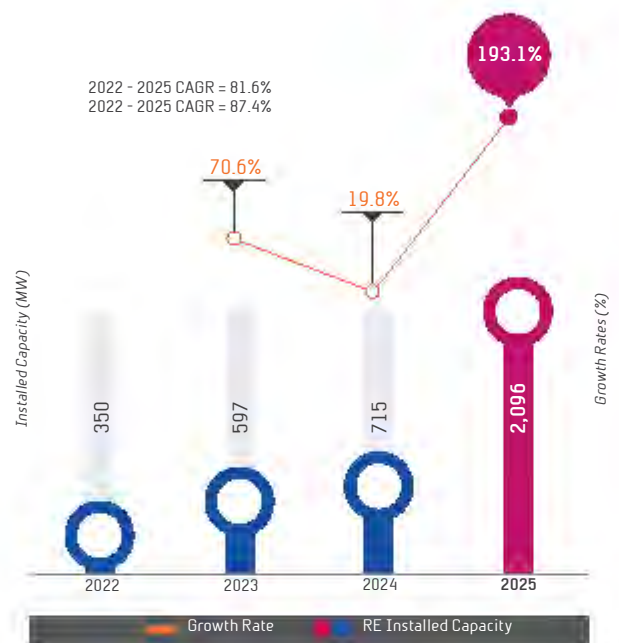
RENEWABLE ENERGY SECTOR IN MALAYSIA

In Malaysia, our presence in the power industry is mainly through our small hydropower plants as well as a biogas power plant.

The renewable energy (“RE”) sector in Malaysia has seen development in recent years with government targeting to achieve renewable energy mix of 23% for Peninsular Malaysia and 20% for the whole of Malaysia by 2025. The current operational and committed renewable energy installed capacity stood at 4,080 MW, an additional 3,758 MW of installed capacity is required to meet the 20% renewable energy mix target. In addition, approximately 58% or 2,172 MW of the additional 3,758 MW of RE installed capacity is forecasted to be solar energy.

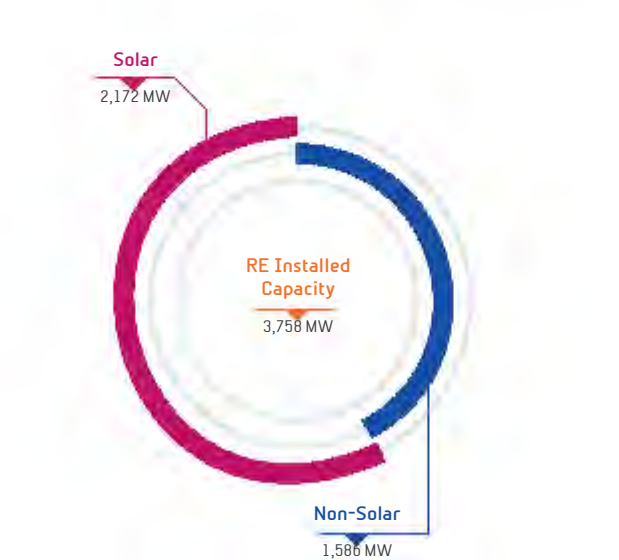
In Peninsular Malaysia, the RE capacity is projected to increase from 9% in 2020 to 23% in 2030, in tandem with the reduction in thermal (gas and coal) capacity share from the total of 82% in 2020 to 70% in 2030.

Figure 4-21: Renewable Energy Additional Required Installed Capacity Projection



(Source: Energy Commission, Malaysia)

Figure 4-22: Additional Required RE Installed Capacity by 2025



(Source: Energy Commission, Malaysia)

POWER GENERATION INDUSTRY

Figure 4-23: Generating Capacity Mix Projection in Peninsular Malaysia



(Source: Energy Commission, Malaysia)

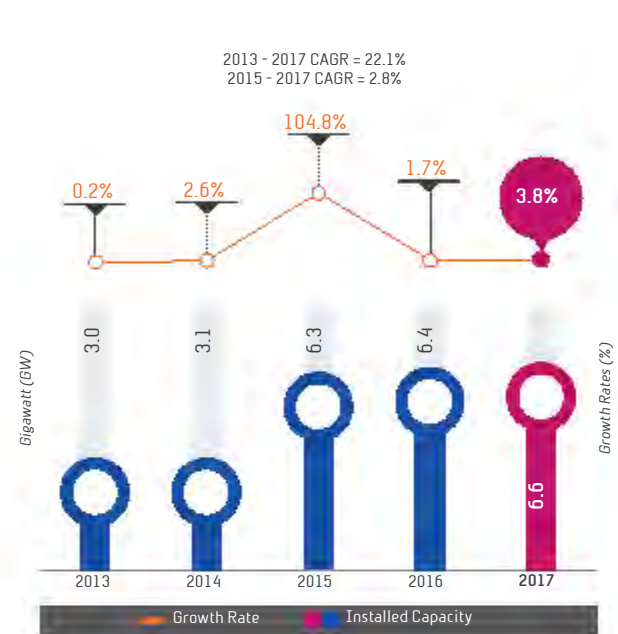


LAOS

We are also involved in the power generation industry in Laos through our minority stake in several hydropower plant projects in Houaphan, Laos. As such, any positive demand and outlook of the power generation industry in Laos may augur well for our Group.

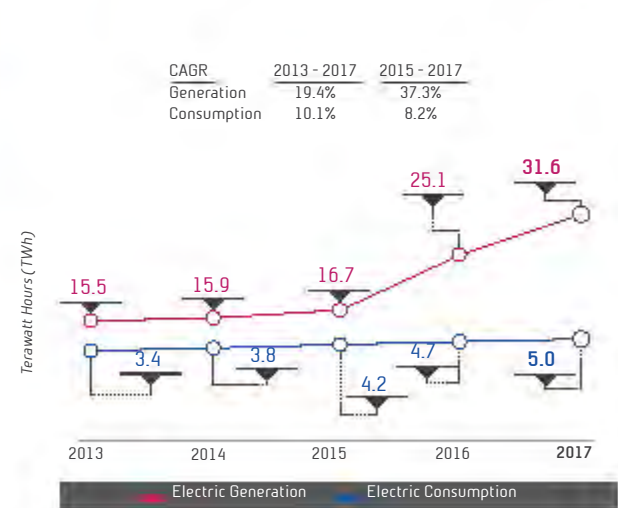
Power generation installed capacity in Laos grew at a CAGR of 22.1% between 2013 and 2017 (Figure 4-24). The sharp rise in power generation installed capacity from 3.1GW in 2014 to 6.3GW in 2015 was largely attributable to the commencement of operation of the 1,878MW lignite-fired Hongsa Power Plant which mainly to cater the local market as well as to export to Thailand.

Figure 4-24: Power Generation Installed Capacity in Laos



(Source: Electricite Du Laos)

Figure 4-25: Electricity Generation and Consumption in Laos



(Source: Lao Statistics Bureau and Electricite Du Laos)

POWER GENERATION INDUSTRY

In line with the power generation installed capacity, electricity generated in Laos grew substantially by a CAGR of 37.3% between 2015 and 2017. In contrast, power consumption in Laos remained stable and grew at a relatively lower CAGR of 8.2% between 2015 and 2017 as compared to the power generation level of the country.

In 2017, power generation in Laos far outweighs domestic consumption by more than six times where power generation in Laos stood at 31.6TWh exceeding total consumption by 26.6 TWh (**Figure 4-25**). With a population of 7.0 million, the demand for power is small. However, some of the excess power generated in Laos were exported to neighbouring countries including Thailand, Cambodia and Myanmar. In 2017, Laos exported 305.4 GWh (USD11.5 million), 52.7 GWh (USD5.1 million) and 0.2 GWh (USD0.02 million) of electricity to Thailand, Cambodia and Myanmar respectively.

According to EDL’s Power Development Plan 2016-2025, memorandums of understanding were signed with governments of some neighbouring countries for the supply of electricity, including the following:

- 3,000 MW to 7,000 MW to Thailand;
- 5,000 MW to Vietnam by 2020; and
- 300 MW of planned export to Myanmar.

Meanwhile, as power generated in Laos were mainly dominated by hydropower plants, the country also imports power from neighbouring countries including Thailand Vietnam and China to meet demand during the dry season. The border areas of Laos also import power due to limited transmission of electricity from the north to the south of the country.

FUTURE OUTLOOK OF THE POWER GENERATION SECTOR IN LAOS

Approved investment projects would provide an indicative outlook for the power generation sector in Laos. Active development in the power generation sector can be translate into higher demand for IRM and MRO services for the power generation plants in Laos, which may be beneficial to strengthen our presence in the country.

In 2019, there were 5 approved power generation projects with a total investment value of USD6.03 billion, the highest investment value recorded in the past five years in Laos. The high level of investment in the power generation sector is likely to provide a positive prospect to the industry.

Figure 4-26: Approved Foreign and Domestic Investment for Power Generation Sector in Laos

Year	No of project	Investment Value	Investment Value CAGR	
		(USD Billion)	2015 - 2019	2017 - 2019
2015	2	0.57		
2016	5	1.95		
2017	2	0.94	80.5%	152.8%
2018	2	0.46		
2019	5	6.03		

(Source: Ministry of Planning and Investment, Lao PDR)

WATER UTILITY INDUSTRY

We also ventured into the water utility industry in Malaysia and have generated a portion of our revenue from the industry. As such, development of the water utility industry would also have an impact on our business.

GLOBAL

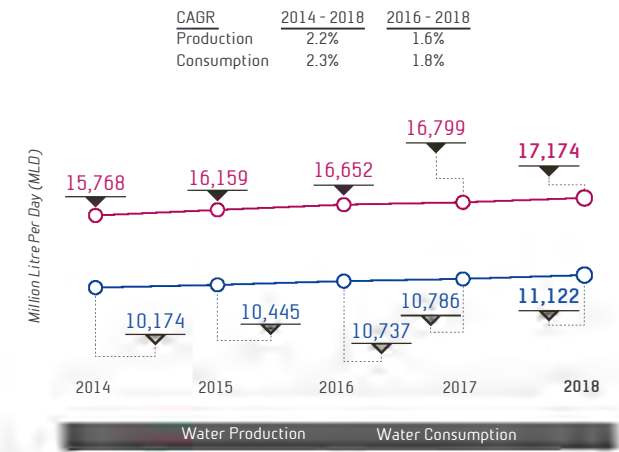
As water is essential for humans and to facilitate social and economic activities, global water demand is largely influenced by the global population and economic growth. The global population is forecasted to grow from the current 7.7 billion to 9.8 billion in 2050. The growth in population and economic performance is likely to encourage development in the water utility industry.

MALAYSIA

We expanded our reach into the water utility industry in Malaysia through acquisition of minority interest in a water treatment plant in Terengganu. Dynamic developments in the water utility industry in Malaysia is likely to have a positive impact on our business.

Over the years, water production in Malaysia has been growing in line with consumption level. Growth of water consumption recorded a CAGR of 2.3% between 2014 and 2018, slightly outpacing water production which grew at CAGR of 2.2%. In 2018, water production stood at 17,174 million litres per day ("MLD"), exceeding total consumption by approximately 6,052 MLD (**Figure 4-27**).

Figure 4-27: Water Production and Consumption in Malaysia

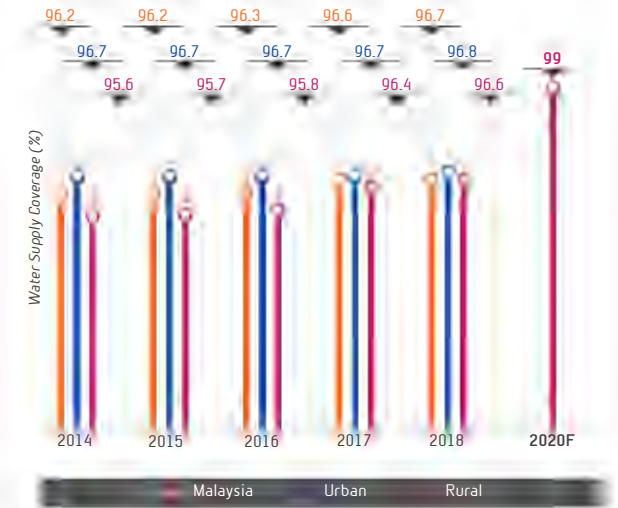


(Source: Department of Statistics).

Overall, water supply coverage in Peninsular Malaysia grew from 96.1% in 2013 to 96.3% in 2016. As of 2016, water coverage in the urban and rural area stood at 96.7% and 95.8% respectively (**Figure 4-28**). In the 11th Malaysia Plan, the government is aiming to achieve 99% coverage of access to clean and treated water in the rural area through the Rural Water Supply Programme. In addition, RM738 million was allocated to improve water coverage in rural areas and, RM160 million was allocated for water supply projects to support FELDA developments.

As at 2017, there were 509 water treatment plants ("WTP") in Malaysia with a total design capacity of 19,706 million litres per day ("MLD"). The WTP capacity in Malaysia increased at a CAGR of 1.8% between 2013 and 2017 (**Figure 4-29**).

Figure 4-28: Water Supply Coverage



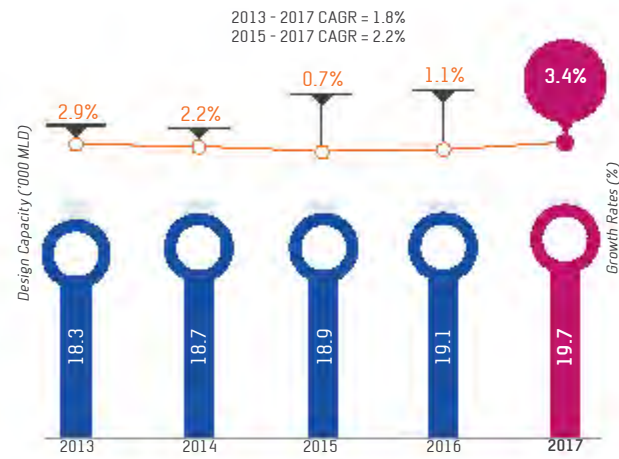
Note: Figure above excluded Sabah and Sarawak.

(Source: National Water Services Commission, SPAN)



WATER UTILITY INDUSTRY

Figure 4-29: Water Treatment Plant Design Capacity



(Source: Malaysia Water Association)

Some of the recent developments in the water utility industry include, among others, the RM85 million Samariang Phase 1 Water Grid Project in Sarawak has commenced construction in 2020 and is expected to be completed in 2021, the RM68 million Pokok Sena water treatment plant that has commenced operation in November 2018, the RM2 billion Papan 1 sewerage upgrading project in Ipoh that will be completed by 2021 and the RM8 billion Langat 2 water treatment plant that is targeting completion in 2022.

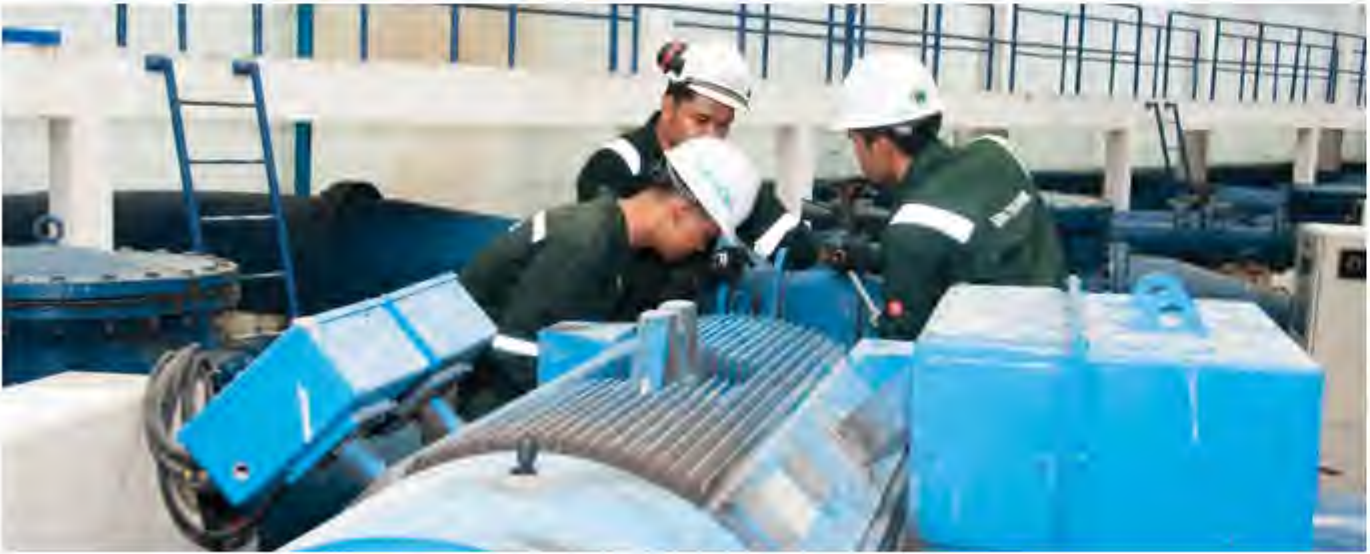
The sewerage treatment system in Peninsular Malaysia can be segmented into two main categories, namely connected sewerage services, and the septic tank and pour

flush system. The connected sewerage treatment system channels household, commercial and industrial wastewater through connected pipes to the sewerage treatment plant ("STP"). The septic tank and pour flush system contain wastewater in a tank, and solid waste is broken down in the tank before liquid effluent is released into the drain. The septic tank and pour flush system generally result in negative environmental effects.

In 2018, approximately 70% of the sewerage treatment system in Peninsular Malaysia is supported by public and private STP, covering approximately 30.1 million population equivalent ("PE").

In the 11th Malaysia Plan, the government focused on improving the country's sewerage system to address environmental pollution and safeguard public health. The government aims to reduce the use of individual septic tank and pour flush systems by developing 80% sewerage connected service coverage in Malaysia, especially in the main cities by 2020.

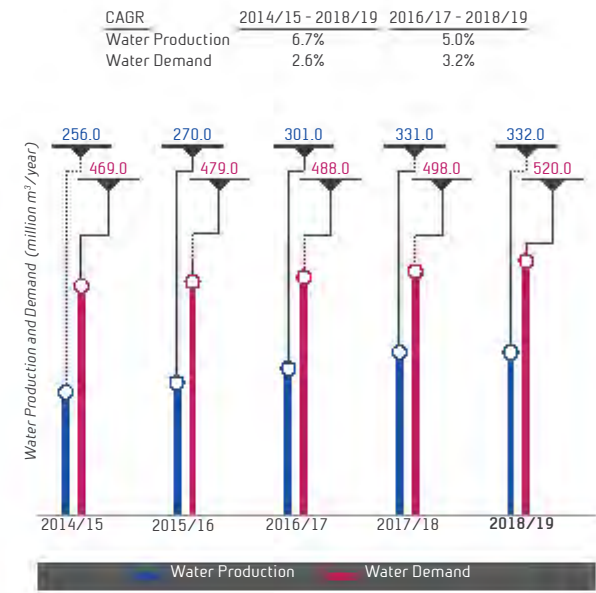
The National Sewerage Master Plan was created to provide integrated and holistic long-term policy direction to encourage migration from individual septic tanks and pour flush systems to standardised sewerage treatment systems to minimise pollution.



WATER UTILITY INDUSTRY

TANZANIA

Figure 4-30: Water Production and Demand*



*Regional and national projects

(Source: Energy and Water Utilities Regulatory Authority of Tanzania)

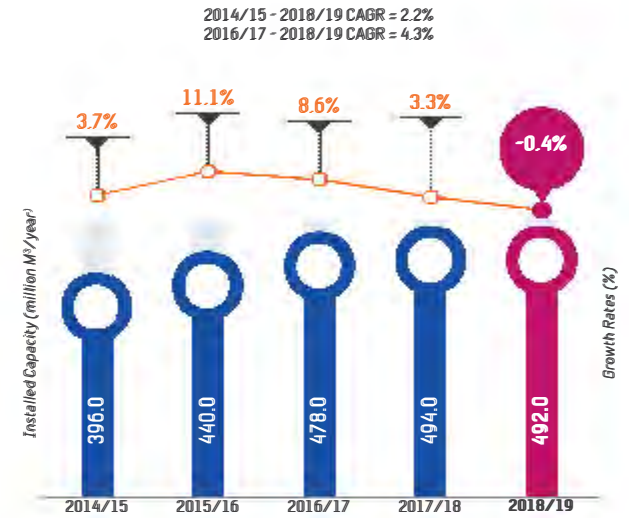
In 2018, we also expanded into the water utility industry in Tanzania with an EPCC job to develop a chlor-alkali plant for the production of chlorine and caustic soda for usage in water treatment plants. We also took a minority stake in a joint-venture company with the owner of the chlor-alkali plant. This marks our Group's entry into the Africa continent.

Between 2014/15 to 2018/19, water production and water demand in Tanzania recorded a CAGR of 4.5% and 4.1% respectively. However, despite an overall growth in water production, there were still gaps between water production and water demand.

This indicates that Tanzania may require higher water production volume to fulfil its local demand.

As the main purpose of our chlor-alkali plant project is to produce chlorine and caustic soda used in water treatment plants, higher water demand strengthens our presence as well as provides further opportunities for our Group in Tanzania.

Figure 4-31: Installed Water Production Capacity*



*Regional and national projects

(Source: Energy and Water Utilities Regulatory Authority of Tanzania)

In 2018/19, installed water production capacity in Tanzania declined at an average annual rate of 0.4% in 2018/19 after recording growth for four consecutive years between 2014/15 and 2017/18. The decline in the installed water production capacity was mainly due to decline in installed capacity of national projects.

UZBEKISTAN

In 2019, we expanded into the water utility industry in Uzbekistan with an EPCC job to develop a chlor-alkali plant for the production of chlorine and caustic soda for usage in water treatment plants.

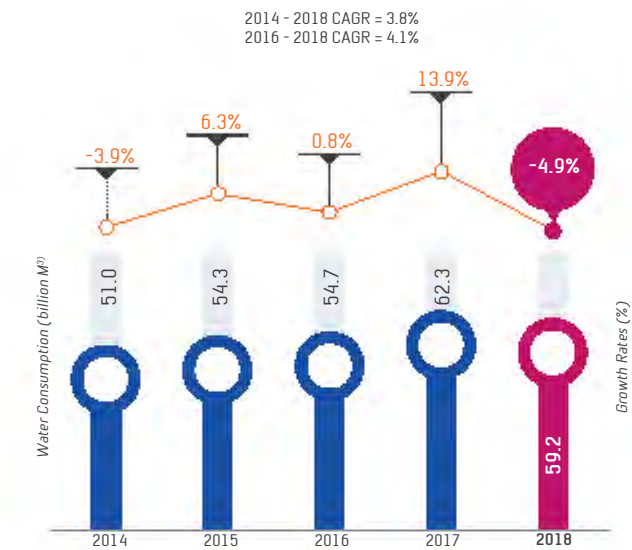
Between 2014 and 2018, water consumption in Uzbekistan grew at a CAGR of 3.8% from 51.0 billion m³ to 59.2 billion m³. In Uzbekistan, the agriculture sector is the largest consumer of water accounting for approximately 90% of the total water consumed in the country. This was because agriculture is one of the dominant sectors leading the economy of the country which accounted for approximately 28% of the national GDP.

WATER UTILITY INDUSTRY

In 2020, the president of the Republic of Uzbekistan approved the Concept of Development of Water Management Sector of the Republic of Uzbekistan for 2020-2030 to ensure stable water supply in the country. Some of the main focus of the 2020-2030 roadmap included irrigation system development, improving water management infrastructure and quality of irrigated lands as well as the efficient and rational use of land and water resources.

Through the implementation of the roadmap, the government will also allow participants from the private sector to enter the water utility industry through public-private partnerships and outsourcing mechanism, as well as strengthening the financial sustainability of the water utility industry by increasing the share of foreign investments. Active development in the water utility industry in Uzbekistan are likely to be beneficial to our expansion into the country.

Figure 4-32: Water Consumption



(Source: The State Committee of Republic of Uzbekistan on Statistics)





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SUSTAINABILITY STATEMENT



GROUP MD / CEO SUSTAINABILITY MESSAGE

“

AS WE CONTINUE TO CREATE WEALTH FOR OUR SHAREHOLDERS, WE GIVE ASSURANCE TO OUR STAKEHOLDERS THAT WE WILL UPHOLD THE HIGHEST STANDARDS OF QUALITY IN PRODUCTS AND SERVICES WITHOUT COMPROMISING ON OUR BUSINESS INTEGRITY AND ETHICS. AT ALL TIMES, WE WILL GIVE DUE CONSIDERATION IN CONSERVING THE ENVIRONMENT WHERE WE OPERATE AND CONTRIBUTE TO SOCIETY WHEREVER POSSIBLE.

”

MESSAGE

CHAPTER 05 5.1

In conjunction with our Annual and Corporate Governance Report 2019, I am pleased to present Serba Dinamik Holdings Berhad's Sustainability Statement. This Sustainability Statement covers business strategies and activities that are significant to our stakeholders and how these material aspects are disclosed.

This statement provides an overview of our Group's progress in 2019 including the policies, practices and procedures developed. This Sustainability Statement also represents our commitment to stakeholders towards maintaining high levels of transparency and accountability in achieving a sustainable future.

As a global integrated engineering solutions provider serving the energy industry, we address sustainability based on balancing the need to generate economic value against nurturing the environment and contributing to society.

For business and economic sustainability, we will continue to focus on our core competencies namely providing operations and maintenance ("O&M") services, and engineering, procurement, construction and commissioning ("EPCC") works to the energy industry. Coupled with our asset ownership business model strategy as well as investing in strategic and complementary businesses, we will also continue to expand into new industries and foreign markets.

We will continue to expand our O&M and EPCC services within the regions that we are currently serving in Central, South and Southeast Asia, Middle East, Europe and Africa. This year, we extended our service offerings and generated revenue from Laos, India and Uzbekistan. To support our vision to be a global energy service provider, we plan to expand further into other regions including the Americas and Australasia.

Additionally, we will seek business opportunities in new synergistic industries which we have yet to have a presence. This is our strategy to provide business sustainability and mitigate over dependency on a small group of countries or a specific industry.

In 2018, we undertook many investments and acquisitions as part of our strategy to diversify into new or complementary industries, facilitate expansion of our geographical markets as well as add value to our goal of becoming an integrated total engineering solutions provider. This year, we focused on nurturing these companies we had acquired.

This year we grew our ICT solution business segment more than ten-folds to over RM100 million with the support of our new acquisitions as well as collaboration with industry experts such as Microsoft.

We will continue to create value in the economies that we operate in. In Malaysia, through our Vendor Development Programme ("VDP"), we are committed to nurture and develop small and medium engineering companies to be competitive locally and be global players. To date, we have 12 vendors registered under our VDP. Our VDP vendors will also benefit our business as they form part of our supply and value-added chain. Since the commencement of our VDP in mid-June 2016, we have awarded more than RM2.0 billion worth of contracts to our vendors.

We stand by our "Think Globally, Act Locally" philosophy whenever we expand our business overseas. It is important that we remember our humble beginnings and be respectful to other nations' people, cultures, practices and environments. While we aim to achieve a primary objective of profit maximisation, we understand the need to satisfy local stakeholders including workers, customers, suppliers, business partners, government as well as the community.

As part of our efforts in promoting environmental sustainability, we will continue to expand our investments in sustainable power generation solutions. We are committed to pursue alternative renewable energy including hydropower and biogas power generation. Last year, our commitment to renewable energy was demonstrated by our acquisition of minority stakes in hydropower plants in Laos as well as a biogas power generation company in Malaysia. During the year, we carried out works on the said renewable energy projects which we secured in prior years.

MESSAGE

On top of that, we will establish our own targets in minimising the adverse effects of our business activities on the environment by making meaningful improvements to the use of energy and water in our own operations.

In terms of our social responsibility to our employees, we will strive to create an environment where all individuals are treated fairly and ensure that their goals and aspirations are taken into consideration.

Being a global company with operations in various countries, we promote diversity in our workplace including people of varying gender, age, religion, race, ethnicity, cultural background and languages. In a diverse workplace, employees are exposed to multiple perspective and worldviews leading to higher innovation rates and increased creativity.

We will empower our employees to develop their competencies and qualifications to propel them for greater career advancement. Employees are also encouraged to participate in social events to maintain work-life balance. We also organise outreach programmes to give back to the community and help the less fortunate.

As we continue to create wealth for our shareholders, we give assurance to our stakeholders that we will uphold the highest standards of quality in products and services without compromising on our business integrity and ethics. At all times, we will give due consideration in conserving the environment where we operate and contribute to society wherever possible.



DATO' DR. IR. TS. MOHD ABDUL KARIM BIN ABDULLAH
Group MD/CEO

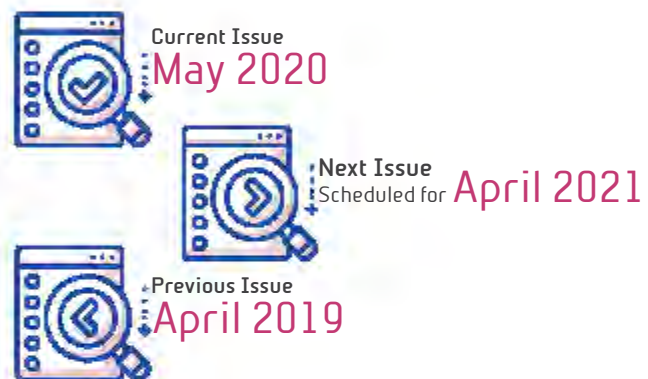


ABOUT THIS SUSTAINABILITY STATEMENT

SCOPE OF THIS STATEMENT

This statement provides a summary of events for financial year ended 31 December 2019 (FYE 2019), which is from 1 January 2019 to 31 December 2019. Where relevant, it also includes some events that occurred in January up to April 2020.

ORGANISATION BOUNDARIES



This statement covers the operations of Serba Dinamik Holdings Berhad and its subsidiaries in Malaysia and foreign countries. Acquisitions are included in data sets once they are legally owned and fully integrated into the corporate structure of Serba Group. All data included in the report is group data unless otherwise stated. Any significant organisation changes are available in Company Announcements on the website of Bursa Malaysia Securities Berhad.

Due to the size of our Group and geographical extent of our operations, it is at times difficult to obtain all data points. Therefore, to the extent possible, limitations and assumptions are stated in this statement.

REFERENCE GUIDELINES

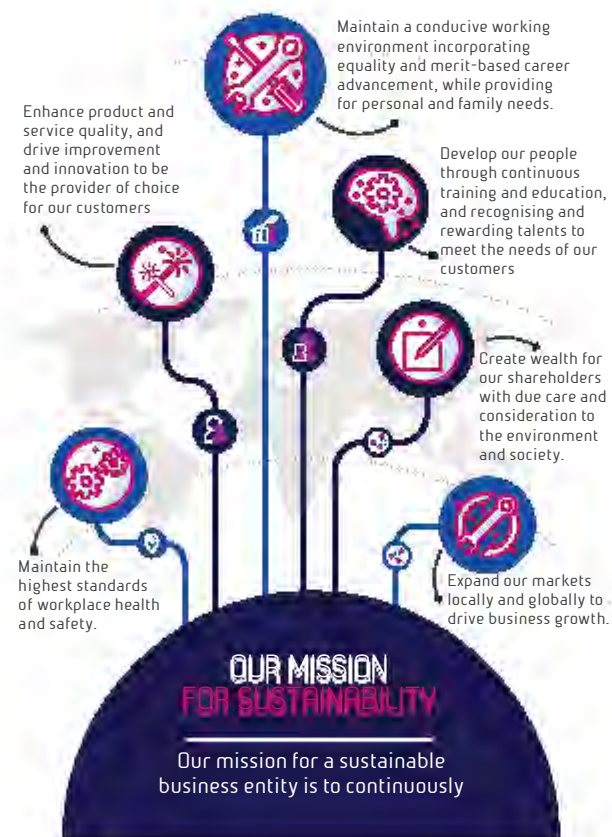
We are guided by local and international statutory and reporting frameworks including Bursa Malaysia's Sustainability Reporting Guide as well as Global Reporting Initiative ("GRI") G4 Guidelines.

ASSURANCE

Financial data in this report has been independently assured as part of the Group annual financial audit.

DISCLAIMER

This statement contains past, present and moving forward information, plans, strategies and policies. Various assumptions were used for the moving forward statements and plans. Our moving forward plans may vary from actual results.



SUSTAINABILITY FRAMEWORK

ASSURANCE

As a commercial enterprise we have an ongoing responsibility to our stakeholders to create economic wealth. At the same time, we acknowledge that we operate within a wider ecosystem comprising various stakeholders, countries in which we derive economic benefits as well as the environment that sustain all of us.

In view thereof, we have developed an overall sustainability framework and guiding principles premised upon the evaluation of the Economics, Environment and Social ("EES") aspect of our business operations.





SUSTAINABILITY FRAMEWORK

STAKEHOLDERS ENGAGEMENT

We continue to actively engage with various stakeholders in efforts to strengthen relationships and create shared values that will propel our Group towards business excellence. This enables us to capture varied expectations, concerns and viewpoints that each group may have about our Group’s business operations. The following presents our list of key stakeholders, their identified issues that matter and our method of communication and engagement.

