

ANNUAL REPORT 2016



**SERBA DINAMIK
HOLDINGS BERHAD**

(Company No.: 1167905-P)



About Serba Dinamik

Serba Dinamik is an international energy services group providing engineering solutions to the Oil and Gas (“O&G”) and power generation industries with operational facilities in Malaysia, Indonesia, United Arab Emirates (“UAE”), Bahrain and the United Kingdom (“UK”).

Under engineering solutions, we provide Operations and Maintenance (“O&M”) services and Engineering, Procurement, Construction and Commissioning (“EPCC”) works. Under O&M services, we provide Maintenance, Repair and Overhaul (“MRO”) of rotating equipment which includes gas and steam turbines, engines, motors, pumps, compressors and industrial fans; Inspection, Repair and Maintenance (“IRM”) of static equipment and structures including boilers and unfired pressure vessels, piping systems and structures, as well as maintenance of process control and instrumentation. Our O&M services for, O&G production platforms, crude O&G refineries, petrochemical manufacturing plants and LNG plants.

We have the capabilities to carry out EPCC of plants, facilities, road infrastructure and buildings, as well as other related systems and solutions including design and installation of process control and instrumentation, auxiliary power generation and firefighting systems.

As an extension of our core competencies in providing maintenance services, we have started to embark on our asset owner business model strategy with our first Compressed Natural Gas (“CNG”) plant in Muaro Jambi, Sumatra in Indonesia. Moving forward, we will continue to expand on this strategy through the development of small gas power plant and water utilities in Indonesia.

Vision

To excel globally as a recognized Total Technical Engineering and Commercial Services Provider

Mission

To continuously be:

- The most highly regarded value-adder in terms of safety, quality and effectiveness
- The first choice for customers that they need not look for other alternatives
- Profit contributor to our shareholders

Disclaimer: This annual report, prepared by Serba Dinamik Group may contain certain forward-looking statements and is prepared based on the Manager’s current view of future events that may involve certain assumptions, risks and uncertainties. Unitholders and investors are advised that past performance does not necessarily signify its future performance.

Contents



02

CORPORATE AND BUSINESS REVIEW

Corporate Information	02
Corporate Structure	03
Facts At A Glance	04
Chairman's Message	06
Group CEO Statement	09
Board of Directors	12
Key Senior Management	20
Management Discussion and Analysis Statement	22
Corporate Sustainability Report	45

78

CORPORATE GOVERNANCE

Corporate Governance Statement	78
Statement on Risk Management and Internal Control	87
Audit Committee Report	91

96

FINANCIAL STATEMENTS

Financial Statements	96
Analysis of Shareholdings	169
Notice of The First Annual General Meeting	172
Proxy Form	[Enclosed]



**BOARD OF DIRECTORS****Chairman and Independent Non-Executive Director**

Dato' Mohamed Nor Bin Abu Bakar

Group Managing Director, Group CEO and Non-Independent Executive Director

Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah

Deputy Group Managing Director and Non-Independent Executive Director

Dato' Awang Daud Bin Awang Putera

Non-Independent Non-Executive Director

Abdul Kadier Sahib

Other Independent Non-Executive Directors

Hasman Yusri Bin Yusoff

Sharifah Irina Binti Syed Ahmad Radzi

Tengku Dato' Seri Hasmuddin Bin Tengku Othman

REGISTERED OFFICE

No. 8-5
Pusat Dagangan UMNO Shah Alam
Lot 8, Persiaran Damai, Seksyen 11
40100 Shah Alam, Selangor

Telephone No. : +603 5511 3213
Facsimile No. : +603 5511 3212

AUDIT AND RISK COMMITTEE

Hasman Yusri Bin Yusoff (Chairman)

Abdul Kadier Sahib

Sharifah Irina Binti Syed Ahmad Radzi

NOMINATION AND REMUNERATION COMMITTEE

Tengku Dato' Seri Hasmuddin Bin

Tengku Othman (Chairman)

Abdul Kadier Sahib

Sharifah Irina Binti Syed Ahmad Radzi

INVESTMENT COMMITTEE

Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah (Chairman)

Dato' Awang Daud Bin Awang Putera

Tengku Dato' Seri Hasmuddin Bin Tengku Othman

COMPANY SECRETARY

Muhammad Hafiz Bin Othman (MIA 37218)

Azlin Azlina Binti Borhan Nordin (LS 0008712)

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn Bhd
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Tower A, Vertical Business Suite
Avenue 3, Bangsar South
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Telephone No. : +603 2783 9299
Facsimile No. : +603 2783 9222
E-mail: is.enquiry@my.tricorglobal.com

AUDITORS

KPMG PLT (Firm No. AF 0758)

Chartered Accountants

Level 6, Westmoore House

Twin Tower Centre

Rock Road

93200 Kuching, Malaysia

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HEAD OFFICE

No. 8-5

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Website: www.e-serbadk.com

INVESTOR RELATIONS

Telephone No. : +603 5511 3213

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E-mail: serba.ir@serbadinamik.com

STOCK EXCHANGE LISTING

Listed on the Main Market of Bursa

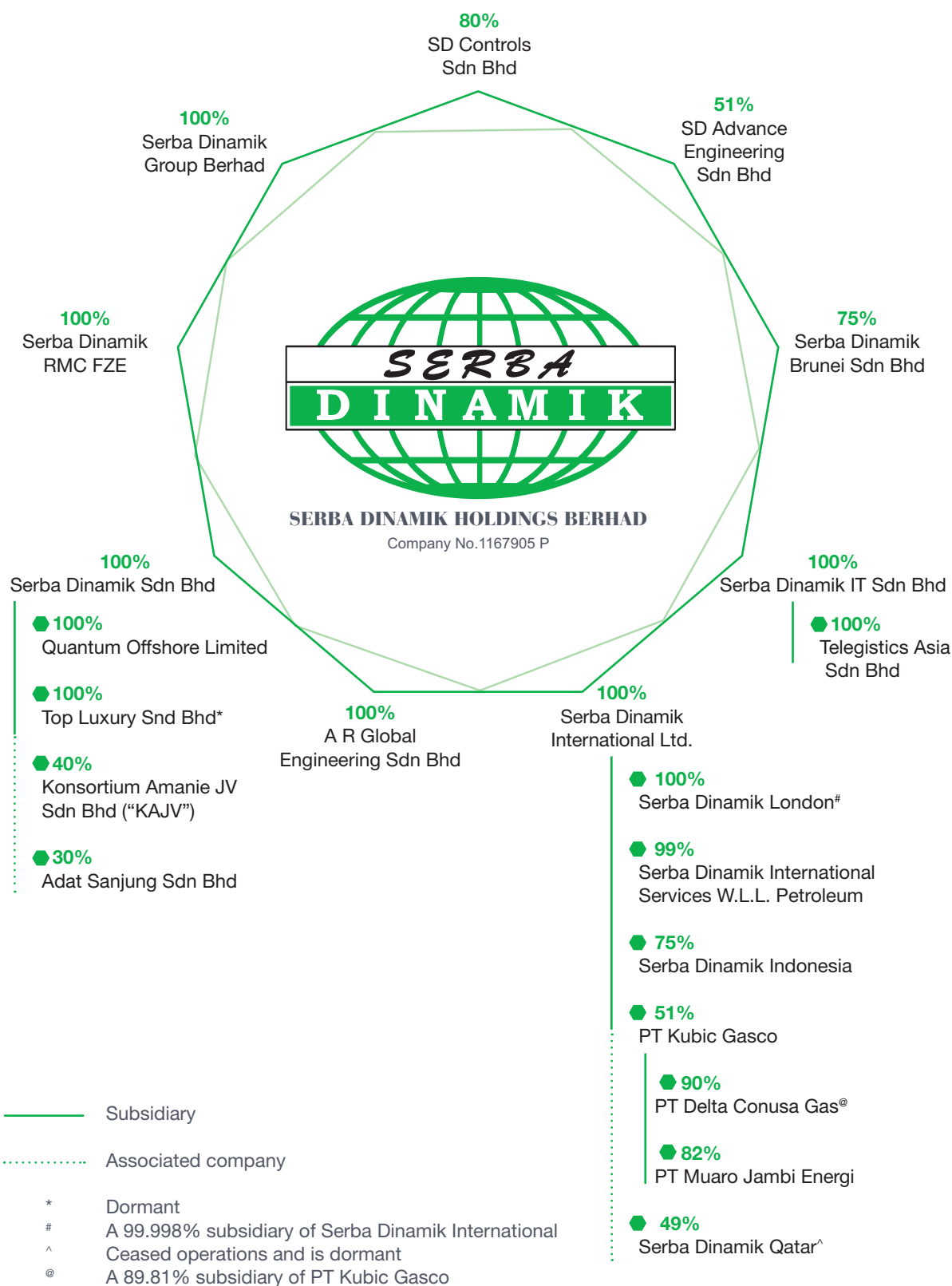
Malaysia Securities Berhad

Listing Date: 8 February 2017

Stock Name: SERBADK

Stock Code: 5279

Corporate Structure



Corporate Structure as at 31 March 2017

FACTS AT A GLANCE

For Financial Period Ended 2016

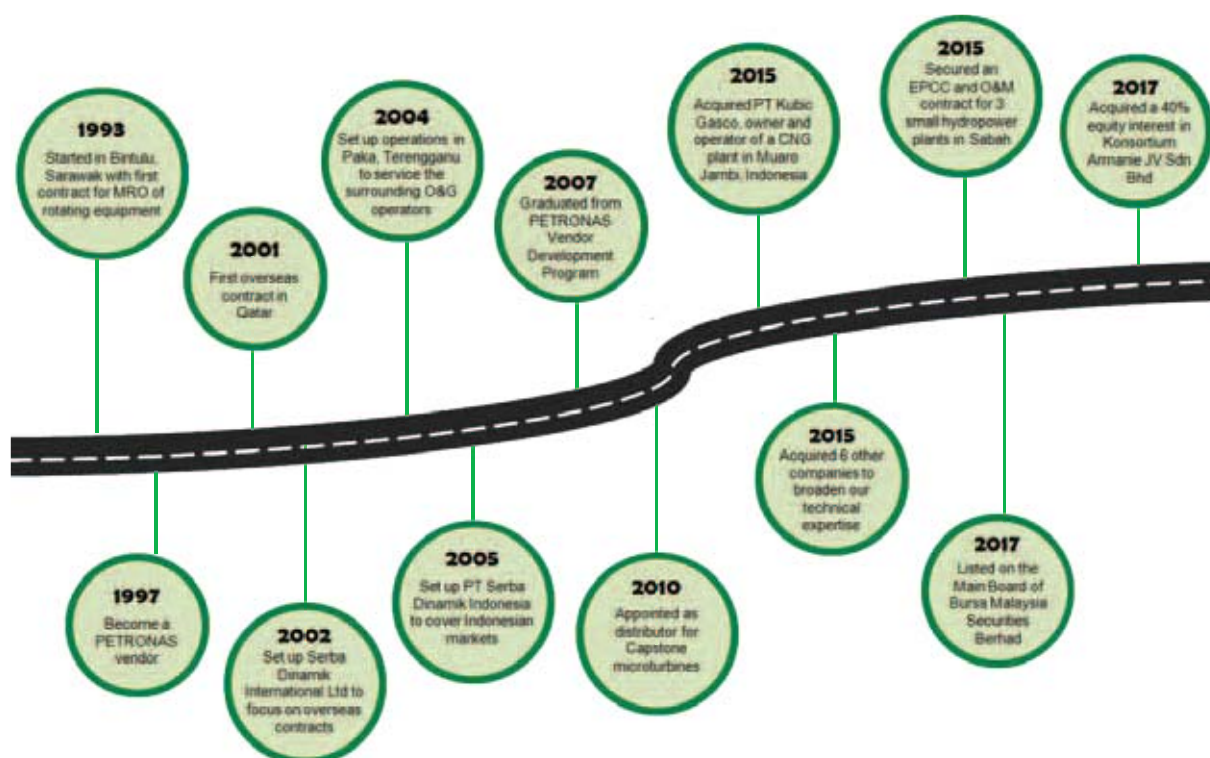


Total Employees as at 31st December 2016 839

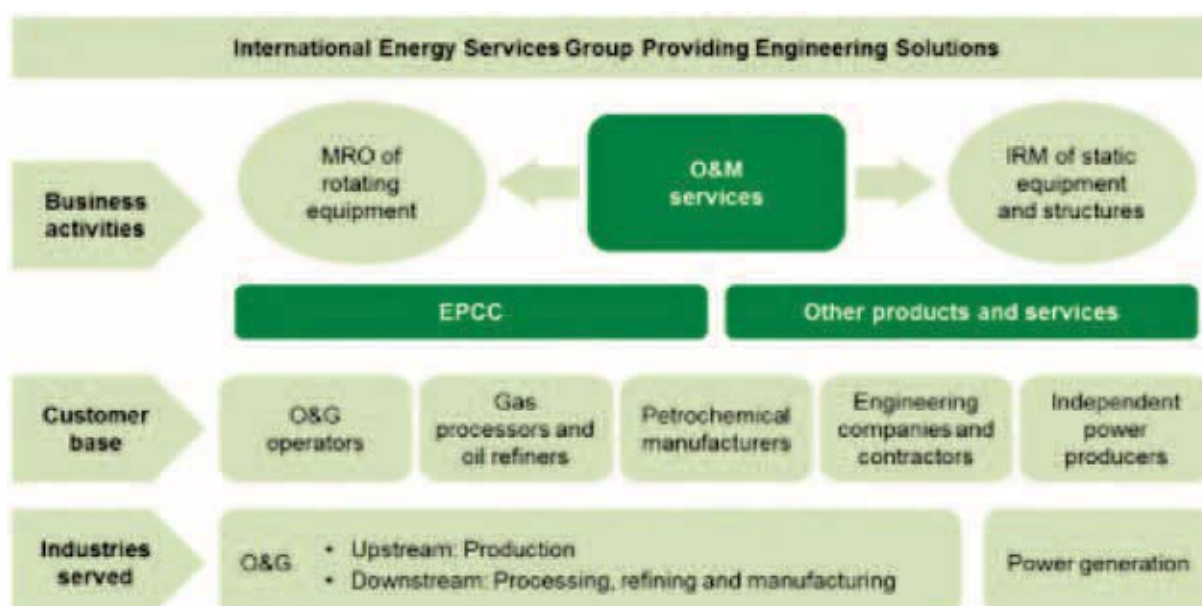


FACTS AT A GLANCE (Cont'd)

Our History and Milestone



Our Business Model

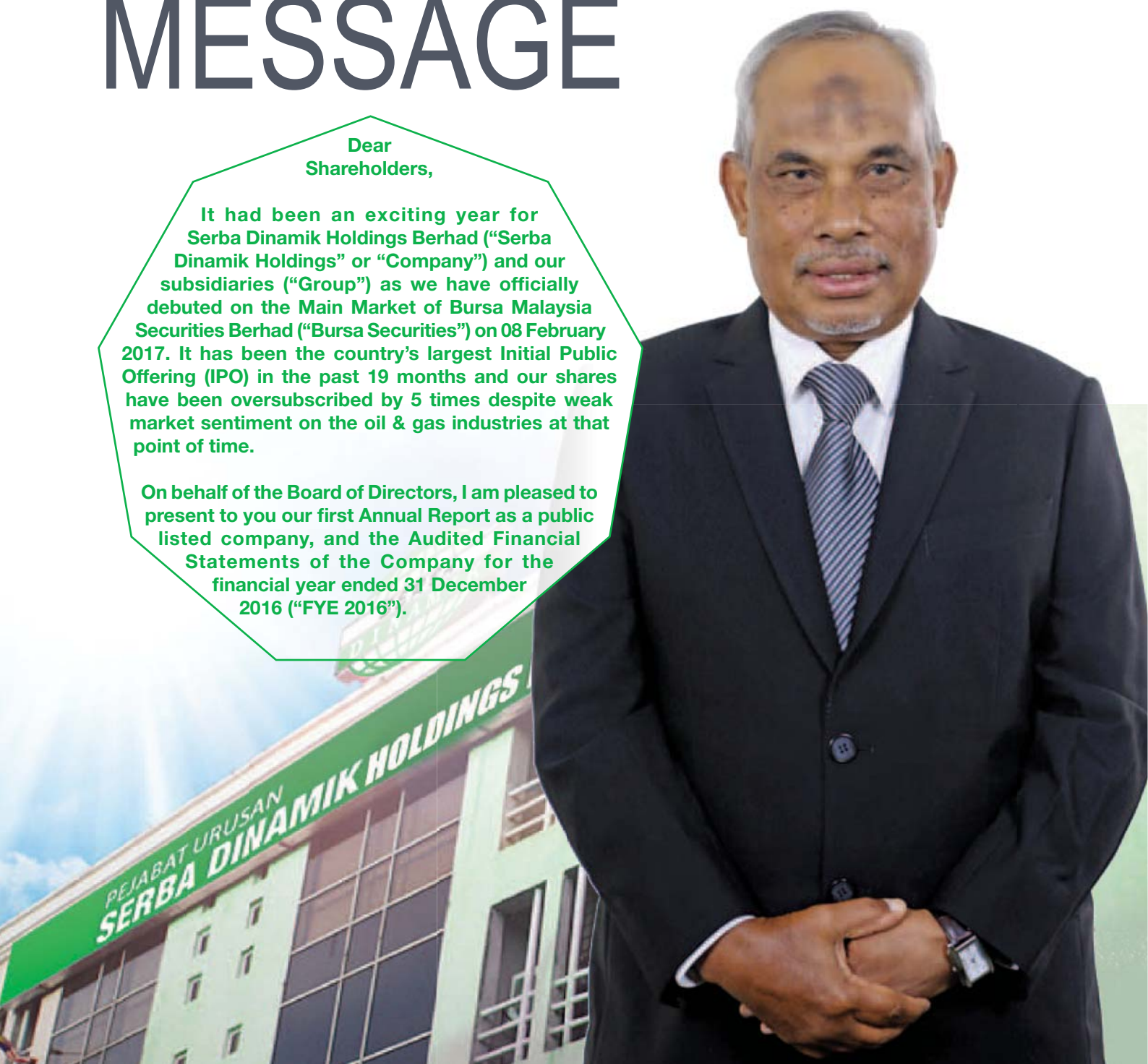


CHAIRMAN'S MESSAGE

Dear
Shareholders,

It had been an exciting year for Serba Dinamik Holdings Berhad ("Serba Dinamik Holdings" or "Company") and our subsidiaries ("Group") as we have officially debuted on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 08 February 2017. It has been the country's largest Initial Public Offering (IPO) in the past 19 months and our shares have been oversubscribed by 5 times despite weak market sentiment on the oil & gas industries at that point of time.

On behalf of the Board of Directors, I am pleased to present to you our first Annual Report as a public listed company, and the Audited Financial Statements of the Company for the financial year ended 31 December 2016 ("FYE 2016").



CHAIRMAN'S MESSAGE

(Cont'd)



OVERVIEW

In 2016, the global economic environment saw expansion as well as financial market volatility due to concerns surrounding issues within the advanced economies, such as policy and political uncertainties, subsequent to the outcome of the United State of America ("US") presidential election and the United Kingdom's ("UK") vote to exit the European Union. Nevertheless, the local economy for the financial year under review saw steady growth, mainly driven by domestic demand. The Malaysian economy grew by 4.5% in the fourth quarter of 2016 (3Q 2016: 4.3%; Quarter-on-Quarter: 1.4%), supported by continued private sector expenditure. On the supply side, growth continues to be driven by the manufacturing and services sectors.^[1]

Over the year, Serba Dinamik has managed to weather the demanding market circumstances and strengthen its financial position as the services it offers are essential in extending the life of the equipment and structures used in the O&G industry. Whilst mindful of the challenging market conditions, the Company continued to secure contracts in O&M services and EPCC, as well as embarked on our asset ownership business model with our CNG plant in Muaro Jambi, Indonesia. We have also secured contracts for the development, ownership, operations and maintenance of several small gas power plants and water utilities in Indonesia, as well as an industrial park in Sarawak.

Malaysia has been our business stronghold, however over the years our international business have seen growth and contributed 64% of the total revenue of the Group. We are seeing an increase in activities overseas and with the deterioration of the Ringgit it augurs well on our overall financial performance from overseas market.

LOOKING AHEAD

The economic landscape for Malaysia is expected to remain resilient in 2017, with external events continuing to weight in on the volatility of the domestic financial markets. These include increased uncertainty over political developments and growth in the major economies as well as volatile commodity prices. Still, we are looking for modest Gross Domestic Product ("GDP") growth of 4.5% for the coming year, with domestic demand remaining the key driver of growth.^[2]

The O&G sector, on the other hand, is likely to remain challenging for 2017. The oversupply of global LNG production has resulted in the decline of more than 70% in LNG prices as compared to its 2014 peak.^[3] As reported by the Malaysian Petroleum Resources Corporation (MPRC), the combined profit for Malaysian O&G services and equipment companies suffered a dip by 52% to RM3.1 billion in financial year 2016 as compared to RM6.5 billion from the previous year.^[4]

In order to ensure the company's continued sustainability over these persistent challenges, we have a solid line of business growth strategies in place by leveraging on our core competencies of operating within the O&G and power generation industries and also by expanding our asset ownership business model. We expect our O&M and EPCC operations to maintain their performance in 2017 as we continue to enhance our business activities to

CHAIRMAN'S MESSAGE

(Cont'd)

offer a broader range of products and services to our customers both locally and overseas. In addition to our newly-listed status on the Main Market of Bursa Securities, we believe that 2017 would be a challenging year for the industry but we hope to deliver another year of exceptional results as we did for FYE 2016.

APPRECIATION

I would like to take this opportunity to extend my heartfelt gratitude to my fellow Board members for their unceasing contribution towards the Company's continued success thus far. On behalf of the Company, we would like to thank our valued customers, business associates, partners, bankers and staff as well as our loyal shareholders for their invaluable support and confidence in Serba Dinamik.

Dato' Mohamed Nor bin Abu Bakar
Chairman / Independent Non-Executive Director

Sources:

[1] http://www.bnm.gov.my/files/publication/qb/2016/Q4_en.pdf

[2] <https://www.nst.com.my/news/2017/02/212588/ram-ratings-malaysias-gdp-growth-forecast-45pct-2017>

[3] <http://www.thestar.com.my/business/business-news/2017/03/24/alliance-of-top-lng-buyers-to-put-pressure-on-msia-and-others/>

[4] <http://www.thestar.com.my/business/business-news/2017/03/06/msian-o-and-g-services-and-equipment-firms-combined-profit-52pc-lower-in-fy15/>

GROUP CEO STATEMENT

The Malaysian economic landscape for 2016 saw a steady development with a slight GDP growth of 4.2% for the full financial year ended 31 December 2016 ("FYE 2016"), signifying an increase in economic activity. Despite the slump faced by the O&G sector, mainly affected by the decline in monthly price of Brent crude oil, we remain poised as the preferred choice in the O&G and power engineering service industry, buoyed by the consistent demand for asset maintenance when they become operational.



CEO STATEMENT (Cont'd)



MILESTONES

I am proud to present the first Annual Report of Serba Dinamik Holdings Berhad (“Serba Dinamik Holdings” or the “Company”). It has been an eventful year for the company and our subsidiaries (“Group”) as we have marked several notable milestones along the way. On 25 May 2016, Serba Dinamik Holdings assumed the role as a holding company of the group to undertake the Group’s IPO that resulted in our successful debut on the Main Market of Bursa Malaysia Securities Berhad on 8 February 2017.

Our shares entered the first day of trading at RM1.53, which was higher than our targeted issue price of RM1.50. Our share price peaked at RM1.80 within our first month of trading. I believe that I speak for all of us at Serba Dinamik Holdings Berhad that we are very pleased with the fruition of our years of hard work in preparation for this significant break through.

I am also pleased to share that the Group’s business expansion plans are on track with the success of our first strategic acquisition subsequent to listing, namely the KAJV. On 21 February 2017, the Group through our wholly-owned subsidiary, Serba Dinamik Sdn. Bhd. (“SDSB”), acquired 40% of the total issued share capital in KAJV, which granted us an EPCC contract worth RM289.70 million as well as a 40% share of KAJV’s profits derived from a RM1.30 billion contract value awarded to KAJV by the state government of Terengganu on 28 April 2016.

The Group is also in stages of discussion with potential target companies for further acquisitions in the coming financial year. Going forward, these successful acquisitions are intended to enlarge and diversify the Group’s revenue streams in the long run by leveraging on our O&M and EPCC capabilities.

In review of our financials, the Group’s performance has been largely driven by Serba Dinamik Group Berhad and our subsidiaries. We are glad to share that the Group closed FYE2016 with a total revenue of RM2.17 billion, an increase by 54.6% as compared to RM1.40 billion posted for the previous financial year (“FYE15”). Subsequently, the SD Group’s Profit After Tax (“PAT”) was marked at RM245.8 million, an increase of 57% as compared to RM156.56 million posted in FYE2015.

The Group also projected a significant Quarter-on-Quarter improvement of 45.7% in revenue at RM745.1 million for the fourth quarter ended 31 December 2016 (“Q4FY16”) as compared to RM511.51 million registered for the preceding quarter ended 31 September 2016 (“Q3FY16”). The revenue improvement was mainly driven by the Group’s O&M segment and its EPCC segment, contributing 89% and 10.8% respectively to the total revenue.

Consequently, we registered a substantial increase in Profit Before Tax (“PBT”) and PAT of RM103.15 million and RM92.01 million respectively in Q4FY16. Both PBT and PAT posted growth rates of 113.2% and 101.1% respectively as compared to RM48.38 million and RM45.75 million correspondingly disclosed for Q3FY16.

CEO STATEMENT (Cont'd)

FORWARD LOOKING

The O&G industry environment is expected to remain cloudy for 2017, arising from the increasing production by shale oil producers and oil prices making a sluggish recovery. Industry analysts and researchers maintain their assumption of Brent crude oil prices at an average price of US\$ 45-50 per barrel for the rest of the year. ^[1]Nevertheless, the merger and acquisition (“M&A”) activity in Asia’s energy sector is expected to accelerate this year with a record of US\$20 billion worth of deals closed in January alone. The spike in M&A activity is mainly due the stabilisation of crude oil prices and major Western oil producers seeking to divest its assets within the region, which includes Myanmar, Bangladesh, Malaysia, China and New Zealand. The demand for LNG in Asia is also estimated to increase by about 40% to 270 million tonnes by year 2025 from the current demand of 190 million tonnes in 2016. ^[2]

Therefore, we believe that these factors will work in favour of the Group’s business expansion strategy to acquire potential assets that will drive additional value to the Group. Our potential targets for acquisition are mainly parts manufacturers as approximately 40% of costs are material costs. The successful acquisitions will provide margin improvement to the Group’s business, reducing costs by 1-2% as well as enable margin generation of approximately 5-10% by trading of parts.

Concurrently, we are focused on expanding our existing business to offer a broader range of products and services to include total plant and facility maintenance and turnaround, which is complementary to our core expertise of O&M services and EPCC works. We will also extend our MRO of rotating equipment to cover marine engines and power generation facilities in large vessels.

Ultimately, we aim to leverage on our expertise in O&M services and EPCC works to enlarge our industry coverage as well as extend our global presence across other surrounding countries to emphasise our involvement within the Middle East and European Union countries.

ACKNOWLEDGEMENT

As we conclude a remarkable year in the company’s corporate journey, I take this opportunity to express my humble gratitude to my fellow Board of Directors, who have been consistently positive and persevered, making it a breeze to weather through the industry’s challenging times together. I also thank the dedicated key management and team of staff for their relentless efforts in contributing to Serba Dinamik’s success thus far.

On behalf of the Group, I would like to extend my greatest appreciation to our market partners and shareholders for their continued confidence in the Group. Your unceasing support further motivates us to strive for another year of positive performance to create sustainable and growing value for all our stakeholders.

DATO’ DR. IR. MOHD ABDUL KARIM BIN ABDULLAH
Group Chief Executive Officer

Notes:

[1] <http://www.nst.com.my/news/2017/03/222912/challenges-persist-og-companies>

[2] <http://asia.nikkei.com/magazine/20170316/Business/Asia-braces-for-an-energy-M-A-bonanza>

Board of Directors



FROM LEFT TO RIGHT:

- 1. SHARIFAH IRINA BINTI SYED AHMAD RADZI**
- 2. HASMAN YUSRI BIN YUSOFF**
- 3. DATO' DR. IR. MOHD ABDUL KARIM BIN ABDULLAH**
- 4. DATO' MOHAMED NOR BIN ABU BAKAR**
- 5. TENGKU DATO' SERI HASMUDDIN BIN TENGKU OTHMAN**
- 6. DATO' AWANG DAUD BIN AWANG PUTERA**
- 7. ABDUL KADIER SAHIB**

** All directors are Malaysian.*

** None of the Directors has any relationship with any Director and/or major shareholder of SDHB.*

** None of the Directors and their family members have any interest with SDHB except for Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah, Dato' Awang Daud Bin Awang Putera and Abdul Kadier Sahib.*

** None of the Directors has been convicted for any offences within the past 5 years other than traffic offences, public sanction or penalty imposed by the relevant regulatory bodies during the financial year.*

Board of Directors

(Cont'd)

DATO' MOHAMED NOR BIN ABU BAKAR

(Chairman and Independent Non-Executive Director)

Dato' Mohamed Nor, aged 67, male, was appointed on 31 May 2016 as our Chairman and Independent Non Executive Director. He obtained his Bachelor Degree in Chemical Engineering in 1974 from the Heriot-Watt University, Scotland, UK. Throughout his career, he has attended several senior management courses overseas, including The Wharton Advance Management Program at The Wharton School, University of Pennsylvania, United States of America. He sat on several technical committees associated with Scientific and Industrial Research Institute of Malaysia (SIRIM) and was the past President of Petrochemical Association of Malaysia.

He began his career with Chemical Company of Malaysia Berhad, a subsidiary of Imperial Chemical Industry of UK Ltd ("ICI") in 1974, prior to joining PETRONAS in 1981. While with ICI he was seconded to ICI Chemical and Fertiliser Teeside Complex in the UK for one and half years as a Technical Engineer in a chlor-alkali process plant manufacturing chlorine gas for water treatment. Subsequently in 1981, he joined PETRONAS as Operations Manager of Asean Bintulu Fertiliser Sdn Bhd and was seconded to Uhde High Pressure Technologies GmbH in Germany to head a project team to carry out the basic and detailed engineering of high pressure technology in the manufacturing of ammonia and urea. He was promoted as the Managing Director cum Chief Executive Officer of Asean Bintulu Fertiliser Sdn Bhd in 1992. In 1994, he was transferred to Kerteh, Terengganu as the Managing Director cum Chief Executive Officer of Ethylene and Polyethylene Malaysia Sdn Bhd, a joint venture between PETRONAS, British Petroleum and Idemitsu Kosan Co. Ltd. His last position in PETRONAS was as the Chairman of Kerteh Integrated Petrochemical Complex prior to his retirement in 2007.

He also sits on the board of several private limited companies in Malaysia.



Board of Directors

(Cont'd)



DATO' DR. IR. MOHD ABDUL KARIM BIN ABDULLAH

(Group Managing Director, Group CEO and Non-Independent Executive Director)

Dato' Karim, aged 52, male, was appointed on 31 May 2016 as the Group Managing Director/ Group Chief Executive Officer of Serba Dinamik Holdings Berhad. He holds a Bachelor in Mechanical Engineering from Universiti Teknologi Malaysia. He obtained an Honorary PhD in Industrial Engineering from InterAmerican University, USA in 2009 and a PhD in Entrepreneurship from Golden State University, USA in 2012. He is a member of the Institution of Engineers Malaysia since 1994, a registered member of the Board of Engineers Malaysia since 1996 and a member of the Asean Federation of Engineering Organisation since 2002.

Dato' Karim has attended various trainings which include: courses on Welding Technology & Inspection held by MJ NDT Training & Consultancy Services (1990), Machinery Monitoring Data Acquisition & Machinery Diagnostic sponsored by Bently Nevada Singapore (1990), Inspection & Maintenance of Rotating Machines held by Japan Cooperation Center Petroleum (1991), seminar on steam turbines held by ABB Turbinen Nürnberg GmbH, Germany (1992) and training on design and usage of condition monitoring products held by Bruel & Kjaer, Denmark.

His illustrious engineering career spanning 29 years started with Asean Bintulu Fertilizer Sdn Bhd (1988) as a Mechanical Engineer. Later he was appointed as the Coordinator for the Ammonia and Rotary 5th T/A Preparation Team (1990) and as a Rotating Equipment Area Engineer (1991). In 1993, he formed Serba Dinamik and assumed the position as the Group Chief Executive Officer.

His gained vast experience in the maintenance and installation of rotating equipment since 1993 that includes major overhaul/inspection of 37MW MHI steam turbines in Module 1, 2 & 3 of Malaysia LNG Sdn Bhd and overall supervisory of plant shutdown maintenance on various rotating equipment.

His tenure as a site project manager with Malaysia LNG Sdn Bhd exposed him to construction and fabrication under the supply and construction of new civil workshop, extension of main warehouse and mechanical workshop in, installation of Jet A- 1 Bunkering Line in Shell Timur Sdn Bhd, installation of flush tank at Bintulu Depot and various other projects with the company.

He has conducted numerous training, internally and externally, primarily in power sectors and oil and gas. Focus areas of training include vibration, machinery alignment and balancing course, condition monitoring programme for rotating equipment, integrated machinery maintenance, preventive and predictive maintenance, inspection and maintenance of pumps, and inspection and maintenance of steam turbines.

Currently, he sits on the board of several private limited companies in Malaysia

Board of Directors

(Cont'd)

DATO' AWANG DAUD BIN AWANG PUTERA

(Deputy Group Managing Director and Non-Independent Executive Director)

Dato' Awang Daud, aged 56, male, was appointed on 31 May 2016 as our Non-Independent Executive Director and Deputy Chief Executive Officer. He obtained an intermediate certificate for Mechanical Fitter/General Mechanic in 1980 from the Institut Kemahiran MARA, Malaysia, and was certified by the National Industrial Trade Training Board in June 1980. He obtained his Bachelor of Science in Mechanical Engineering in 1994 from the University of the East, Philippines. He subsequently obtained a Master in Mechanical Engineering in 2007 from the Universitas Pancasila, Jakarta, Indonesia.

He began his career with Syarikat Jengka Pahang Sdn Bhd as an apprentice in 1978 where he was trained in overhauling and repairs of rotating equipment such as electric motor, multi centrifugal pumps, rotary pumps boiler and dryer. In 1980, he joined Ballast Nedam International (Malaysia) Sdn Bhd as a Mechanical Workshop Supervisor where he was in charge of productivity and service quality of machining jobs, welding/fabrication and maintenance repair of mechanical equipment. He then joined Daelim (Malaysia) Sdn Bhd in 1981 as a Heavy Industries Equipment Millwright where he gained experience in designing, fabrication, maintenance, installation and repair works of various heavy machinery and vehicles. In 1983, he joined Malaysia LNG Sdn Bhd as Technician 3 and was eventually promoted to Supervisor. He was a part of the pioneer group which set up the mechanical workshop for the first product of LNG and maintenance of Malaysia LNG Sdn Bhd. He remained in Malaysia LNG Sdn Bhd until 1993.

He joined Serba Dinamik in 1994 as a director and was involved in field supervision, coordination and managing various projects, construction and fabrication tasks, planning and tendering, attending negotiation and handling managerial portfolios.

Currently, he also sits on the board of several private limited companies in Malaysia.



Board of Directors

(Cont'd)



ABDUL KADIER SAHIB

(Non-Independent Non-Executive Director)

Abdul Kader, aged 68, male, was appointed on 31 May 2016 as our Non-Independent Non-Executive Director. He obtained his Bachelor Degree in Economics in 1973 from the University of Malaya, Malaysia. He began his career as a marketing executive with Diethlem Sdn Bhd in 1973 for one year and later joined Sarawak Economic Development Corporation, where he served as a marketing officer until 1976. In 1976, he started his own business in diversified areas of food industry, road transportation, agriculture and forestry. In July 1994, he was appointed as a director in Serba Dinamik and subsequently became a shareholder of Serba Dinamik in October 1994.

He is a member of the Party Pesaka Bumiputera Bersatu Sarawak ("PBB") and sat as an executive committee member at the state level of PBB Youth Wing for two terms, from 1985 to 1989. He is an active member of the Bumiputera Chamber of Commerce Sarawak ("DUBS") and was elected as Chairman for the Bintulu branch in 1986 where he continued for three terms until 1991, thereafter advisor of DUBS from 1992 to 1994. Presently, he is the Vice President of DUBS at state level, a position he was elected in 2014 and will continue to hold until 2017. He was appointed as a member of the Consultative Council to Local Government, whose main function is to advise the Bintulu Development Authority on the development and local government functions in Bintulu, for the periods between 1991 to 1997 and 2013 to 2018.

In 2008 he was awarded the "Sarawak State Entrepreneur of the Year Award" by the Sarawak Ministry of Industrial Development.

He also sits on the board of several private limited companies in Malaysia.

Board of Directors

(Cont'd)

SHARIFAH IRINA BINTI SYED AHMAD RADZI (Independent Non-Executive Director)

Sharifah Irina, aged 41, female, was appointed on 31 May 2016 as our Independent Non-Executive Director. She obtained her Bachelor of Commerce (Accounting) in 1999 from The University of Adelaide, Australia. She later obtained a Master of Business Administration (MBA) in 2011 from University of Strathclyde, Scotland, UK. She is a Chartered Accountant and has memberships with Chartered Accountants Australia and New Zealand (formerly The Institute of Chartered Accountants in Australia (ICAA)) since 2003 and Malaysian Institute of Accountants (MIA) since 2004. During her career, she has also obtained a Graduate Diploma (ICAA) Certificate of Completion in 2003 and certification as a certified SAP Financial Solution Consultant in Financial Accounting in 2007 and Management Accounting in 2008.

She began her career with PricewaterhouseCoopers Malaysia in 1999, in Business Advisory Services, providing audit services to a wide range of industries, which include public listed companies dealing with media, oil and gas, automotive and property development, among others. In 2002, she joined Usaha Tegas Sdn Bhd in Internal Audit Department and was responsible for dealing with matters in relation to corporate governance, compliance, enterprise risk management, internal controls and policies. In 2003, she joined iPerintis Sdn Bhd as a Business Analyst to broaden her scope into IT, dealing with financial consultancy projects. While servicing predominantly oil and gas and shipping industries, she eventually became a certified SAP Financial Solution Consultant and thereon performed SAP projects including enhancements, customization, and full cycle project implementations.

In 2011, she joined Abeam Consulting (M) Sdn Bhd as a Senior SAP Financial Consultant providing SAP services locally as well as overseas for companies in various industries including insurance, manufacturing, security enforcement and defence and plantation. She was responsible for the end-to-end SAP implementation, from understanding the various business landscapes, needs and requirements and performing gap analysis to blueprint, functional specifications and manual documentations, project implementation, testing, verification and reconciliation exercises, through to training and support.

Currently, she is also a director of a private limited company in Malaysia.



Board of Directors

(Cont'd)



TENGKU DATO' SERI HASMUDDIN BIN TENGKU OTHMAN (Independent Non-Executive Director)

Tengku Dato' Seri Hasmuddin, aged 55, male, was appointed on 31 May 2016 as our Independent Non-Executive Director. He obtained his Bachelor of Law (Honours) in 1986 from the University of Malaya, Malaysia.

He is a practising advocate and solicitor, having admitted to the Malaysian Bar on 14 July 1987. Upon his admission, he commenced his legal practice in 1987 at Messrs Suhaimi Abdullah & Co., Malacca.

In 1989, he joined Messrs. Hisham Sobri & Kadir where he is presently the Principal Partner. His main areas of practice are corporate commercial law and Islamic banking and finance. Tengku Dato' Seri Hasmuddin was among one of the legal counsels involved in framing the structural framework for Islamic banking documentation in the early stages of its development in Malaysia.

He has been a member of the Association of Chartered Islamic Finance Professionals Malaysia since 2009. He continues to play an active role in the development of this area of law through his involvement in the organisation of Kuala Lumpur Islamic Finance Forum, an annual forum that gathers prominent personalities, practitioners and industry players of Islamic Finance as well as by presenting papers at conferences and forums on the subject which are held both locally and internationally.

Tengku Dato' Seri Hasmuddin is also involved in charitable organisations in the capacity of a trustee to the Tuanku Najihah Foundation, Yayasan Institut Al Quran Kuala Lumpur, Tabung Amanah Pesakit Malaysia, Institut Quran Tuanku Jaafar, Yayasan Kolej Islam Sultan Alam Shah and Yayasan Munarah.

Currently, he also sits on the boards of several public companies in Malaysia including Bank Muamalat Malaysia Berhad and Aliran Ihsan Resources Berhad, as well as several private limited companies in Malaysia. He is also an independent director of Rangkaian Hotel Seri Malaysia Sdn. Bhd., Institute Jantung Negara Sdn. Bhd. Both IJN Holdings Sdn. Bhd., Rangkaian Hotel Seri Malaysia Sdn. Bhd. are Government Investment Companies.

Tengku Dato' Seri Hasmuddin is an Independent Non-Executive Director of Bank Muamalat Malaysia Berhad. He is the Chairman of Nomination and Remuneration Committee, a member of Board Audit Committee, Veto Committee and Board Risk Management Committee. Bank Muamalat Malaysia Berhad is a subsidiary of DRB-HICOM Berhad, a company listed on the Main Market of Bursa Securities. He is also an Independent Non-Executive Director of Aliran Ihsan Resources Berhad. Aliran Ihsan Resources Berhad is a subsidiary of MMC Corporation Berhad, a company listed on the Main Market of Bursa Securities.

Board of Directors

(Cont'd)

HASMAN YUSRI BIN YUSOFF

(Independent Non-Executive Director)

Hasman Yusri Yusoff, aged 56, male, was appointed on 16 November 2016 as our Independent Non-Executive Directors. He is also the Chairman of the Audit Committee and a member of the Nomination & Remuneration Committee.

He is a member of the Malaysian Institute of Accountants and a Fellow of the Association of Chartered Certified Accountants. He holds a Postgraduate Diploma in Islamic Studies from International Islamic University Malaysia.

Hasman Yusri was a Partner at KPMG Malaysia before his retirement in December 2015. He joined KPMG in 1999 as a Director in the Assurance and Audit Division before becoming a Principal with the Assurance Division in October 2001. Prior to KPMG, he was with the Petronas Group of Companies for 10 years from 1984 to 1994, holding various positions in the Group. Thereafter, he joined Malakoff Berhad for four years from 1995 to 1999 as the General Manager, Finance responsible for the financial affairs of the Group. His experience in audit and commercial covers a wide range of industries including construction, property development, plantation, power generation and oil & gas.

He has been an Independent and Non-Executive Director of Malaysian Resources Corporation Berhad. He also sits on the board of a private limited company in Malaysia.



Key Senior Management

***DATO' DR. IR. MOHD ABDUL KARIM ABDULLAH**

Dato' Karim is our Group Managing Director/Group Chief Executive Officer, and also our Non-Independent Executive Director.

***DATO' AWANG DAUD BIN AWANG PUTERA**

Dato' Awang Daud is our Executive Director/Deputy Chief Executive Officer and also our Non-Independent Executive Director.

SYED NAZIM BIN SYED FAISAL

Syed Nazim Bin Syed Faisal, is our Group Chief Financial Officer. He obtained his Bachelor of Accounting in 2004 from the International Islamic University Malaysia. He later obtained a Master Degree in Islamic Finance Practice in 2014 from the International Centre for Education in Islamic Finance, Malaysia. He also obtained a Certificate in Islamic Banking and Finance Law in 2013 from the International Islamic University Malaysia. He is a member of the Malaysian Institute of Accountants since 2007.

He began his career with KPMG (Assurance division) as Audit Assistant in 2003. Later in 2009, he joined MISC Berhad as Strategic Planning Manager. Thereafter, in 2012, he joined RHB Islamic Bank Berhad as the Head of Statutory and Management Reporting. In 2013, he joined Ibdar Bank BSC(c), Kingdom of Bahrain, as Vice President Financial, Compliance and Administration. In August 2015, he joined the Serba Dinamik Group as Chief Financial Officer and subsequently, was appointed as our Group Chief Financial Officer in June 2016.

Currently, he sits on the board of several private limited companies in Malaysia.

IR ABDUL HALIM BIN MOHD DAMIAH

Ir Abdul Halim Bin Mohd Damiah, is our Vice President of EPCC Business Unit. He obtained his Bachelor's degree in Electrical Engineering in 1991 from the University of Malaya, Malaysia. He is a member of the Royal International Naval Architecture since 2008 and a registered Professional Engineer (Electrical) in the Board of Engineers Malaysia since 2006.

He began his career with SNC Industrial Laminates Sdn Bhd, a subsidiary of Sumitomo, as a Maintenance Engineer in 1992. He later joined Holcim (Malaysia) Sdn Bhd (formerly known as Tenggara Cement Manufacturing Sdn Bhd) as an Electrical Engineer in 1994 and subsequently was promoted to Senior Electrical Engineer in 1998. In 2004, he joined Malaysia Marine and Heavy Engineering Sdn Bhd as an Electrical Quality Assurance Senior Executive under Marine Business Unit and was subsequently promoted to Project Manager under the Yard Development Division. In 2010, he joined a Korean company, EKG Engineering, as a General Manager. He joined Serba Dinamik in April 2011 and has remained in his current position to present. Currently, he sits on the board of several private limited companies in Malaysia.



Key Senior Management

(Cont'd)

AFANDI BIN ABD HAMID

Afandi Bin Abd Hamid, is our Vice President of O&M Business Unit. He obtained his Certificate in Mechanical Technician in 1993 from the Petroleum Industrial Training Institute Malaysia. He obtained his Vibration Specialist Certificate 1 and 2 in 1997 from the Vibration Institute, United States of America. He later obtained his Bachelor of Science in Engineering in 2004 from the Liberty International University, United States of America, whereby he was awarded with an Award of Academic Excellence. He is also a member of the IMM Vibration Committee.

He began his career with Malaysia LNG Sdn Bhd as a Mechanical Trainee in 1991. In 1992, he joined Asean Bintulu Fertilizer Sdn Bhd as a Mechanical Technician. He later joined Petronas Penapisan Melaka Sdn Bhd in 1993 as Mechanical Technician (Construction), before assuming several roles, namely as an IMI Technician in 1995, Rotating Equipment Inspector in 1996, and was further promoted to Senior IMI Technician in 1998. In 2000, he joined Petronas Carigali Sdn Bhd as a Conditioned Based Maintenance Specialist. He joined Serba Dinamik as a Technical Engineer in 2001 and was promoted to Machinery Engineer in 2004 before assuming his current position in March 2009.



MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

1. OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

Serba Dinamik Holdings Berhad was incorporated on 2 December 2015 as a private limited company and was subsequently converted to a public limited company on 13 May 2016 for undertaking our public listing exercise on Bursa Malaysia's Main market. Serba Dinamik Holdings Berhad later acquired Serba Dinamik Group Berhad and its subsidiaries on 25 May 2016 forming the complete group ("**The Group**").

We are an energy services group providing engineering solutions to engineering companies and contractors, O&G operators, gas processing plants, oil refineries, petrochemical manufacturers, and independent power producers, among others with operational facilities in Malaysia, Indonesia, UAE, Bahrain and UK. Within engineering solutions, we provide operation & maintenance ("**O&M**") services, undertake engineering, procurement, construction and commissioning ("**EPCC**") works, and provide other supporting products and services, which include technical training, provision of Information & Communication Technology ("**ICT**") solutions and services, supply of products and parts, and provision of logistics services. As an energy services group, we have customers in geographical locations within Malaysia, Indonesia, Turkmenistan, India, Middle East region and UK.

Our Group is organised into business units according to their nature of activities and has three reportable operating segments as follows:

1.1 O&M SERVICES

Within O&M services, we undertake the following:

1.1.1 Maintenance, Repair and Overhaul ("**MRO**") of rotating equipment:

We are a MRO specialist for various types of rotating equipment, which includes gas and steam turbines, engines, motors, generators, pumps, compressors and industrial fans. Our MRO services are currently focused on rotating equipment used in the energy industry, including O&G production and refineries and power plants. The Group usually secures a maintenance service package that includes the servicing of an entire rotating equipment system including the driver, driven components, transmission devices, process control and instrumentation system, and ancillary equipment and systems.

1.1.2 Inspection, Repair and Maintenance ("**IRM**") of static equipment and structures:

We provide IRM services for various types of static equipment, namely boilers, unfired pressure vessels, heat exchangers, columns, reactors and separators. Our IRM of boilers are specifically for steam boilers.

Our O&M services are supported by five service centres in Malaysia, one service centre in Bahrain and one service centre in the UAE. In countries where we do not have an established service centre, we undertake our MRO services on-site or utilise the facilities provided by our strategic business partners, who are also our customers.

By leveraging on our core strengths in MRO and IRM, we have expanded into the operations of small power plants. To date, we have an ongoing contract to operate and maintain three small hydropower plants for 21 years in Kota Marudu, Sabah, Malaysia. This contract is expected to commence upon the completion of construction by the end of 2017.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

1. OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS (CONT'D)

1.2 EPCC

The Group holds capabilities to carry out EPCC of plants, facilities, road infrastructure and buildings, as well as other related systems and solutions, including design and installation of process control and instrumentation, auxiliary power generation and firefighting systems. The scope for EPCC includes installation of piping systems, installation of rotating and static equipment, installation of power generation equipment and plants, development of infrastructure, and construction of amenities and buildings.

Other EPCC works that we carry out include the design, supply and installation of process control and instrumentation, and auxiliary power generation and firefighting systems. For some instances, we may sub-contract some aspects of the contract work to third parties to obtain expertise that is not available in-house as well as to practice timely delivery of our projects.

We are also in the midst of the execution of the aforementioned Engineering, Procurement, Construction and Commissioning of Power Plants contract in Kota Marudu, Sabah, Malaysia.

1.3 OTHER PRODUCT & SERVICES

The Group also provide technical training, provision of ICT solutions and services, supply of products and parts, and provision of logistics services.

We also started our asset ownership business segment with our first compressed natural gas (“**CNG**”) plant located in Muaro Jambi, Sumatra, Indonesia. This business model involves majority equity participation in potential business entities, and will be an extension of our current core competencies where we can contribute our expertise in O&M services and EPCC. The CNG plant commenced its operations on 25 November 2016 and we will also be operating and maintaining the plant going forward. Additionally, we have committed to undertake the projects in place for the development, ownership, operations and maintenance of the following assets:

- (i) One 0.8MW gas power plant in Ambon Island, Indonesia;
- (ii) One 4MW gas power plant in Muaro Jambi, Sumatra, Indonesia
- (iii) One 4MW & one 1MW gas power plants in East Kutai in East Kalimantan, Indonesia; and
- (iv) One industrial park with CUF in Sarawak

As a group servicing customers, locally and overseas, our overall business strategy is to leverage on our core competencies in the O&G and power generation industries, and also asset ownership to enlarge our target markets across diversified industries and countries, diversify our revenue streams and essentially, drive our future business growth.

For 2016 Bank Negara Malaysia announced Malaysia's GDP growth at 4.2%. The central bank is opined that the global economy is expected to improve but remains a moderate growth pace. In spite of the challenging external environment, the Malaysian economy will continue its sustained growth trend driven by domestic demand.

In respect of global economy, International Monetary Fund (“IMF”) in October 2016 has announced that global economic growth for 2016 is slowing at 3.1% following the June U.K. vote in favour of leaving the European Union (Brexit) and weaker than expected growth in the United States. However improvement is expected in 2017 with growth expected to increase to 3.4%.^[1]

As we are majorly involved in the O&G and power generation industries, which is also one of the key contributors to the nation's economy development, the performance of the Group is closely tied to the overall prospects of these two industries.

[1] <http://www.imf.org/external/pubs/ft/weo/2016/02/>

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

1. OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS (CONT'D)

1.3 OTHER PRODUCT & SERVICES (CONT'D)

Since June 2014, the average monthly price of Brent crude oil had declined by 57.3% from US\$112 per barrel to US\$48 per barrel in January 2015. By October 2016, the monthly price of Brent crude oil increased to an average of US\$50 per barrel. The decision made by OPEC in late November 2016 to control and reduce oil production volume to 1.2 million barrels per day was deemed as a favourable move to the industry, and consequently, Brent crude oil price was sitting approximately at US\$52.83 per barrel as at 31 March 2017. Similarly, the trend in natural gas prices, particularly in Asia, moves in tandem with the fluctuation in Brent crude oil prices.

Despite the challenges in the market, the Group's financial performance remained strong. With companies in the industries cutting their spending in order to cope with oil price volatility, the Group managed to penetrate the market with its price competitiveness and knowledge in the industry.

Recent Acquisition of Konsortium Armanie Joint-Venture Sdn Bhd:

The Group has entered into a contract on 20th February 2017 to acquired 40% equity interest in Konsortium Armanie JV Sdn Bhd ("KAJV"), for a total cash consideration of RM34 million. KAJV was awarded a contract by the State Government of Terengganu for the design and build of 120 million litres per day ("MLD") and 28 MLD membrane water treatment plant, intakes, service tank, installation of raw water and clean water pipes, retrofitting and other works for the Kuala Terengganu Utara Water Supply Scheme.

The acquisition is expected to be completed by the second quarter of 2017 and SDSB had been awarded the engineering, procurement, construction and commissioning ("EPCC") works with total value of approximately RM289.72 million as well as a 40% share of KAJV's profits derived from a RM1.30 billion contract value awarded to KAJV by the state government of Terengganu.

2. HISTORICAL FINANCIAL INFORMATION

The following section presents selected historical consolidated financial data for the FYE 2013, FYE 2014, FYE 2015, FYE 2016 for Serba Dinamik Group and FPE 2016 for Serba Dinamik Holdings Berhad. As Serba Dinamik Holdings Berhad effectively acquired the group on 25th May 2016, the audited financial statements were prepared for the period of seven months from the date of acquisition. For analysis purpose, we presented the groups full year result below as well as the seven-month performance from 25th May 2016 for comparison.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Selected statement of profit or loss and other comprehensive income data:					
Revenue	536,195	755,768	1,402,942	2,168,328	1,408,556
Cost of operations	(444,881)	(644,461)	(1,170,483)	(1,794,611)	(1,173,604)
Gross profit	91,314	111,307	232,459	373,717	234,952
Other operating income	1,757	8,151	852	1,073	545
Administrative expenses	(23,669)	(33,645)	(51,201)	(71,845)	(51,380)
Results from operating activities	69,402	85,813	182,110	302,945	184,117
Other non-operating income	–	–	2,590	–	–
Finance income	10,198	846	2,040	3,963	2,277
Finance costs	(13,550)	(18,974)	(27,169)	(38,974)	(19,790)
Net finance costs	(3,352)	(18,128)	(25,129)	(35,011)	(17,513)
Share of results of equity accounted associates	(232)	–	–	–	–
PBT	65,818	67,685	159,571	267,934	166,604
Tax expense	(4,199)	(312)	(3,009)	(22,125)	(15,164)
PAT	61,619	67,373	156,562	245,809	151,440
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of employee benefits	38	18	–	–	–
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations	(287)	5,816	41,795	43,089	46,030
Total comprehensive income for the year/period	61,370	73,207	198,357	288,898	197,470
PAT attributable to:					
- Owners of the Company	58,676	63,881	156,723	246,124	151,831
- Non-controlling interests	2,943	3,492	(161)	(315)	(391)
PAT	61,619	67,373	156,562	245,809	151,440
Total comprehensive income attributable to:					
- Owners of the Company	58,427	69,715	198,319	289,403	198,112
- Non-controlling interests	2,943	3,492	38	(505)	(642)
Total comprehensive income for the year/period	61,370	73,207	198,357	288,898	197,470

MANAGEMENT DISCUSSION

AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.1 REVENUE ANALYSIS

Our revenue grew by 54.6% from RM1.4 billion in FYE2015 to RM2.17 billion in FYE 2016 mainly due to:

- (i) maintenance and EPCC works contracts/orders being secured, including maintenance services which are recurring in nature. Comparatively, for FYE 2016, we had 83 maintenance contracts and 10 EPCC works contracts/orders, with a total of approximately 2610 work orders, whilst for FYE 2015, we had 78 maintenance contracts where approximately 1,826 work orders were requested by our customers and 24 EPCC works contracts/orders; and
- (ii) our other products and services segment which comprises technical training, ICT solutions and services, and supply of products and parts. For FYE 2015 to FYE 2016, revenue from our other products and services segment was mainly attributed to the supply of products and parts to customers through purchase orders as well as ICT solutions and services; and
- (iii) our enlarged customer base in Malaysia and the Middle East region.

Analysis of our revenue by nature of activities (i.e. operating segments)

The breakdown of our revenue by operating segments is as follows:

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
O&M	418,095	599,680	1,274,906	1,930,535	1,252,880
EPCC	106,631	90,685	124,942	232,635	152,368
Others	11,469	65,403	3,094	5,158	3,308
Total Revenue	536,195	755,768	1,402,942	2,168,328	1,408,556

O&M services is the largest revenue contributor and accounted for 89.03% of our revenue in FYE2016. The O&M services revenue is driven by our specialisation in the MRO of rotating equipment and IRM of static equipment and structures. The table below sets out the revenue generated from our O&M services:

	Serba Dinamik Group Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
IRM	8,939	30,632	299,758	111,012	25,769
MRO	409,156	569,048	975,148	1,819,523	1,227,111
Total O&M	418,095	599,680	1,274,906	1,930,535	1,252,880

MRO of rotating equipment is the largest O&M services contributor which accounted for 94.25% of our revenue in O&M services segment in 2016. Whilst IRM of static equipment and structures accounted for 5.75% of our revenue in O&M services segment.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.1 REVENUE ANALYSIS (CONT'D)

Analysis of our revenue by nature of activities (i.e. operating segments) (Cont'd)

Our second largest revenue contributor for FYE2016 is our EPCC segment with a total contribution of RM232.6 million or 10.73% of the total group revenue. In FYE2016, our main EPCC works revenue contributions came from the following:

- One River Power for EPCC works of small hydro power plants in Kota Marudu, Sabah, Malaysia;
- Sarawak Shell Berhad for the design, supply and delivery of microturbine generators for E6 Field Development Project; and
- New Thunder Technical Services L.L.C. for the procurement, fabrication, construction and commissioning works

Our other supporting products and services segment's revenue for FYE2016 was derived from the provision of technical training and ICT solutions and services. The segment accounted a total of RM5.2 million worth of revenue or 0.24% of the overall total revenue for the Group.

Analysis of revenue by geographical locations:

	2013 RM'000	Serba Dinamik Group Financial Year Ended		2016 RM'000	Serba Dinamik Holdings Financial Period from 25/5/2016 – 31/12/2016 RM'000
		2014 RM'000	2015 RM'000		
Southeast Asia					
Malaysia	295,936	350,827	486,018	770,291	506,746
Indonesia	51,310	39,353	84,397	178,695	103,240
Sub-total	347,246	390,180	570,415	948,986	609,986
Central and South Asia					
Turkmenistan	80,945	123,689	166,401	102,757	30,839
India	3,196	773	634	–	–
Sub-total	84,141	124,462	167,035	102,757	30,839
Middle East					
Bahrain	4,937	9,846	5,628	164,100	146,723
United Arab Emirates	998	38,694	196,357	213,503	113,636
Qatar	64,769	91,566	254,723	348,813	260,249
Oman	7,180	78,333	177,791	39,719	33,812
Saudi Arabia	26,924	12,286	15,964	279,704	164,659
Kuwait	–	9,772	12,356	68,035	47,164
Sub-total	104,808	240,497	662,819	1,113,874	766,243
Europe					
UK	–	629	2,673	2,711	1,488
Total	536,195	755,768	1,402,942	2,168,328	1,408,556

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.1 REVENUE ANALYSIS (CONT'D)

Analysis of our revenue by nature of activities (i.e. operating segments) (Cont'd)

For the past four financial years, our business operations were mainly focused within Malaysia, Indonesia, Turkmenistan and the Middle East. Malaysia was our main revenue contributor, and contributed 35.5% to our revenue for FYE 2016. In 2016, revenue from Malaysia continued to increase by 58.5%.

Revenue in Malaysia was mainly attributed to the provision of O&M services on maintenance contracts secured from PETRONAS Carigali Sdn Bhd, other oil majors and petrochemical companies within the PETRONAS group of companies as well as our EPCC contract for the EPCC works of small hydro power plants in Kota Marudu, Sabah, Malaysia with One River Power Sdn Bhd.

PETRONAS Group continued to be the largest contributor to Malaysian revenue providing for RM337.66 million which is derived from the provision of maintenance services in relation to existing contracts. Other major contributors included Sarawak Shell Berhad and One River Power Sdn Bhd which accounted for RM67.2 million and 64.7 million for FYE2016.

Revenue from Indonesia was mainly derived from the provision of O&M services to several customers involved in the O&G industry where the maintenance contracts were focused on provision of MRO services for rotating equipment maintenance works. Revenue from Indonesia was generated from maintenance contracts with PT Gunawan Construction to its end-customers, PT Chevron Pacific Indonesia and Pertamina Group in FYE 2016 for the supply of skilled manpower, equipment and tools for rotating equipment maintenance works.

Revenue contribution from Turkmenistan for the past three financial years and FYE 2016 was derived under our O&M segment solely from PETRONAS Carigali Turkmenistan Sdn Bhd, a contract which was secured in FYE 2013 and completed in FYE 2016 for the provision of MRO services for rotating equipment. Moving forward, we expect the revenue generated from Turkmenistan to continue as we are currently bidding for additional new contracts.

The revenue contribution from the Middle East region has increased throughout the past four financial years as we continue to build our network and secure contracts from countries in the Middle East, where their contributions increased from 19.55% in FYE 2013 to 51.4% in FYE 2016.

In the United Arab Emirates, our revenue continued to increase in FYE 2016 due to our EPCC project with New Thunder Technical Services LLC. for the Procurement, Fabrication, Construction, and Commissioning services for their end user clients which contributed approximately RM43.4 million. We have also recognised revenue from our contract with Yusof Bin Ahmed Kanoo Company Limited for the provision of boilers inspection and turnaround maintenance to its end-customer, Taweelah Asia Power Company; and from Energy Engineering & Services for the provision of MRO of pressure testing, COTP, safety relief valve and other associated rotating equipment for its two end-customers, Dubai Natural Gas Company Limited and Borouge.

In Qatar, revenue contribution for FYE 2016 was derived from our contract with Process Dynamics Company for the provision of topside maintenance service, MRO of pressure testing, crude oil transfer pumps, safety relief valve and other associated rotating equipment to its end customers, which includes Qatar Petroleum. We had also secured a contract with Energy Engineering & Services for the MRO of pressure testing, COTP, safety relief valve and other associated rotating equipment to its end customers, which includes Qatar Gas Company which contributed to our increased revenue under the O&M segment for FYE 2016.

In Oman, we generated revenue from maintenance contracts with Energy Machine Services LLC for a maintenance project in Oman to its end-customer, Petroleum Development Oman for FYE 2016.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.1 REVENUE ANALYSIS (CONT'D)

In Saudi Arabia, we continued to generate revenue from our maintenance contracts from Elliot Gas Services Saudi Arabia Limited for the provision of skilled manpower for MRO rotating equipment services to Saudi Aramco Group which contributed to our revenue for the past three financial years. In FYE 2016, we secured maintenance contracts from Midad Industrial Services for the provision of MRO of pressure testing, COTP, safety relief valve and rotating equipment which contributed RM230.6 million.

Our revenue in Europe is mainly generated by our subsidiary Quantum Offshore Limited which derives its revenue from the provision of design, engineering, and installation of auxiliary power generators and firefighting systems.

2.2 COST OF OPERATIONS:

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Parts, consumables and services ⁽¹⁾	397,610	586,615	1,084,547	1,692,285	1,109,527
Professional fees ⁽²⁾	26,353	27,873	25,067	12,288	7,602
Personnel expenses ⁽³⁾	7,265	9,708	19,222	30,354	18,606
Depreciation ⁽⁴⁾	8,538	12,721	25,370	47,896	32,525
Others ⁽⁵⁾	5,115	7,544	16,277	11,788	4,058
Total	444,881	644,461	1,170,483	1,794,611	1,172,318

Notes:

- (1) Parts comprise machine and equipment parts, tools and equipment, microturbines, compressors, piping and metal structures. Consumables comprise oil, lubricants and fuel. Services are amounts paid to suppliers for their supply of parts and provision of services.
- (2) Include fees paid to professionals for provision of technical consultancy, technical analysis and testing as well as training services under City & Guilds.
- (3) Include wages and salaries of personnel directly related to the contracts/projects as well as technical personnel.
- (4) Depreciation of plant and equipment and tools and equipment.
- (5) Includes hiring and chartering of equipment, travelling and transportation and maintenance of own machineries and equipment.

Our cost of operations increased by 53.3% from RM1.17 billion in FYE 2015 to RM1.79 billion in FYE 2016. Parts, consumables and services form a major component of our cost of operations and had increased by 56.0% from RM1.08 billion in FYE 2015 to RM1.69 billion in FYE 2016 due to the increase in new maintenance contracts secured by our Group, particularly in Malaysia and the Middle East.

We were able to reduce our professional fees expense by 51% from RM25.07 million in FYE 2015 to RM12.29 million in FYE2016 by improving the group's internal capabilities through the purchasing of specialised equipment and hiring of specialised personnel in order to enable us to perform these services internally.

MANAGEMENT DISCUSSION

AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.2 COST OF OPERATIONS: (CONT'D)

In FYE 2016, personnel expenses increased by 57.91% from FYE 2015 due to the increase in manpower requirement in line with our expansion in Malaysia and overseas operations. Our number of employees (including technical and supervisory, but excluding managerial and professional, clerical and administrative, and sales and marketing) increased from 580 as at 31 December 2015 to 611 as at 31 December 2016. The technical and supervisory employees are mostly contract workers and their salaries are recognised under cost of operations. The increase was also as a result of higher expenses paid for overseas contract workers consistent with the growth in our overseas business.

For FYE 2016, depreciation of plant and machinery, and tools and equipment increased 88.8% in line with the additions to these assets resulting in an increase of RM22.53 million in FYE 2016 from RM25.3 million in FYE 2015 to RM 47.9 million in FYE 2016. The additional, depreciating represent 12.1% of total addition for plant, machinery, tools and equipment.

We acquired more plant and machinery to cater to our workshop expansion. We currently operate from five different service centres in Malaysia namely, in Labuan which comprises Labuan Service Centre 1 and Labuan Service Centre 2, Paka, Bintulu and Miri. We also purchased other tools and equipment to cater to our increased business operations. For FYE 2016 we increased our purchase of tools and equipment substantially as we secured several contracts which required concurrent mobilisation of works.

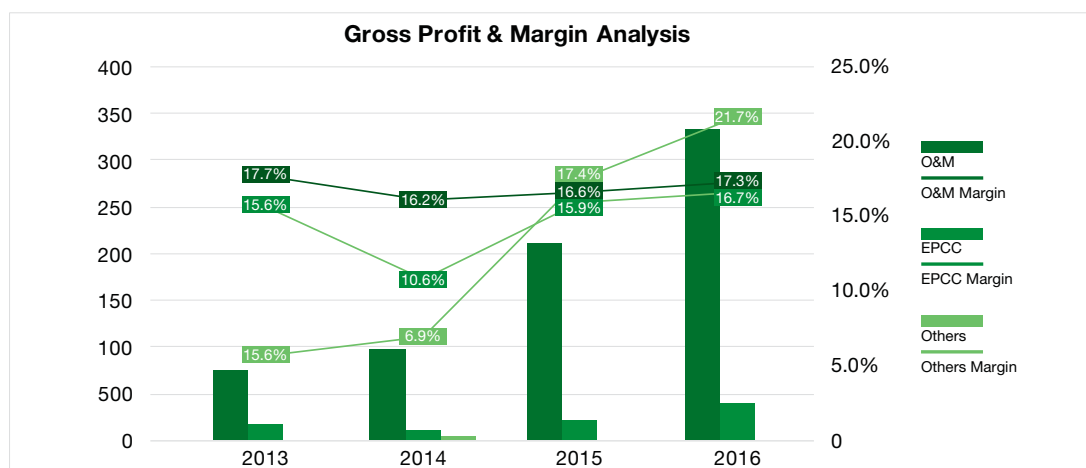
2.3 ANALYSIS OF GP AND GP MARGIN BY OPERATING SEGMENTS

	Serba Dinamik Group Berhad Financial Year Ended								Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016	
	2013		2014		2015		2016		RM'000	Margin %
	RM'000	Margin %	RM'000	Margin %	RM'000	Margin %	RM'000	Margin %		
O&M	74,044	17.7	97,156	16.2	212,020	16.6	333,729	17.3	212,368	17.0
EPCC	16,629	15.6	9,657	10.7	19,900	15.9	38,867	16.7	21,947	14.4
Others	641	5.6	4,494	6.9	539	17.4	1,121	21.7	637	19.2
Total	91,314	17.0	111,307	14.7	232,459	16.6	373,717	17.2	234,952	16.7

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)



2.3 ANALYSIS OF GP AND GP MARGIN BY OPERATING SEGMENTS (CONT'D)

Our O&M segment recorded an improvement in GP margin from 16.6% in FYE 2015 to 17.3% in FYE 2016. For our EPCC segment, GP margin increased to 16.7% in FYE 2016 from 15.9% in FYE 2015. The GP margin from EPCC segment is driven by the nature, type and specification of EPCC works projects secured and can vary from year to year depending on the progress of works. Each EPCC works contract has different works specification, mobilisation timing and deliverables in terms of procurement, types of products required, fabrication and construction, testing, installation and commissioning. Accordingly, each EPCC works contracts will have different revenue and cost structures resulting in different margins being earned. We maintain our competitiveness by undertaking EPCC works that is mainly focused on minor fabrication works including, among others, steel structures, piping systems, installation of rotating and static equipment as well as construction of plants, amenities and buildings. For FYE 2016, the EPCC segment had higher GP margin than FYE 2015 as we managed to secure a higher number of EPCC works contracts/orders that were negotiated with better pricing which led to higher GP margin.

The Margin for the Other Supporting Services segment also improved to 17.4% in FYE2016 due to the fact that a higher portion of the revenue was contributed by the provision of ICT services which typically yields higher margins than training provision and supply of goods and spare parts.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.4 ADMINISTRATIVE EXPENSES

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Administrative Expenses					
Personnel expenses	3,110	7,904	25,458	21,683	13,014
Professional fees	2,160	3,185	9,693	27,205	24,960
Depreciation	1,526	2,251	2,548	5,045	2,890
Foreign exchange loss	1,670	521	2,559	1,742	902
Other administrative expenses	15,203	19,784	10,943	16,170	9,614
Total	23,669	33,645	51,201	71,845	51,380

Our administrative expenses primarily consist of personnel expenses, professional fees, depreciation of property, plant and equipment, foreign exchange loss, write-offs/impairment and provisions, and other administrative expenses. The professional fees incurred include legal fees, consultation fees, secretarial fees, audit fees, taxation and assessment fees.

Our administrative expenses increased by 40.3% from RM51.2 million in FYE 2015 to RM71.8 million in FYE 2016. This was mainly due to professional fees which increased from RM9.7 million in FYE 2015 to RM27.2 million in FYE 2016 as a result of our listing expenses.

Personnel expenses include salary and wages, staff training expenses, staff travel expenses, employee retirement plan contributions, medical claims and directors' remuneration. Our personnel expenses for FYE 2016 decreased by -14.8% to RM21.7 million from RM25.5 million in FYE 2015. This was due to the reclassification of the costs relating to project related employees as cost of sales instead of Administrative expenses.

Depreciation charged out under administrative expenses is mainly on buildings, motor vehicles, furniture, fittings and office equipment and office renovation. Depreciation of plant and machinery and tools and equipment are charged out under cost of operations instead. The depreciation incurred under Administrative expenses during FYE2016 amounted to RM5 million increase due to addition in furniture, fittings and office equipment as well as motor vehicles as part of our business expansion.

Other administrative expenses comprise utilities, travelling and transport expenses and maintenance of office equipment and motor vehicles as well as office expenses such as printing, stationaries and courier charges. Travelling and transport expenses include flight tickets, hotel charges, fuel charges, road tax and insurance. The increase of cost by 47.8% is slightly lower than our overall increase in activity of 54.6%

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.5 FINANCE INCOME AND FINANCE COSTS

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Finance Cost					
Finance Income	10,198	846	2,040	3,963	2,277
Finance Cost	(13,550)	(18,974)	(27,169)	(38,974)	(19,790)
Net Finance Cost	(3,352)	(18,128)	(25,129)	(35,011)	(17,513)

Finance income relates to finance interest income from term deposits placed with financial institutions. Our Finance income increased to RM3.96 million in FYE 2016 from FYE 2015 due to the increase in term deposits placed with financial institutions.

Finance costs relates to our finance interest expense on borrowings taken for project financing and to finance acquisition of companies. Our finance costs increased by 43.5% from RM27.17 million in FYE 2015 to RM38.97 million in FYE 2016, as a result of additional drawdowns on our existing short term facilities secured to finance on-going projects. This was in line with our increased borrowings from RM473.3 million as at 31 December 2015 to RM639.7 million as at 31 December 2016. We have substantial short-term borrowings (payable within 12 months) as opposed to long-term borrowings. Our short-term borrowings comprise mostly secured trade facilities, revolving credits and bank overdrafts. We have taken on additional short-term borrowings to cater to our overseas contracts in the Middle East where we require up-front cash to satisfy some of our contract requirements in terms of purchase of parts, tools and equipment, and manpower mobilisation.

2.6 PBT AND PBT MARGIN

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
PBT	65,818	67,685	159,571	267,934	166,604
PBT margin	12.28%	8.96%	11.37%	12.36%	11.83%

Our PBT increased substantially by 67.9% from RM159.57 million in FYE 2015 to RM267.93 million in FYE 2016 following the significant increase in revenue of 54.6% from the previous year. Consequently, our PBT margin increased from 11.37% in FYE 2015 to 12.36% in FYE 2016.

MANAGEMENT DISCUSSION

AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.7 TAX EXPENSE

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Taxation expense	4,199	312	3,009	22,125	15,164
Statutory tax rate (%)	25.00	25.00	25.00	24.00	24.00
Effective tax rate (%)	6.38	0.46	1.89	8.26	9.10

The group is subject to income tax at the applicable statutory tax rates in Malaysia and overseas where we have foreign subsidiaries. For FYE 2016, the group incurred a total tax expense of RM22.1 million resulting in an effective tax rates of 8.3% which is lower than the statutory tax rates due to the following tax treatment:-

- (i) Under the preferential tax treatment given to Labuan entities incorporated or registered under the Labuan Companies Act 1990, such entity can qualify and elect to pay tax of RM20,000 per annum under Section 7 (1) of the Labuan Offshore Business Activity Tax Act 1990. In respect, our subsidiary, Serba Dinamik International which was incorporated in Labuan Malaysia qualified and elected to pay tax of RM20,000 per annum; and
- (ii) Our Group generates income in Malaysia and Overseas. Income derived from sources outside Malaysia and received in Malaysia is exempted from Malaysia income tax by virtue of Subparagraph 28 (1), Schedule 6 of the Income Tax Act 1967.

In FYE 2016, our tax expense increased to RM22.13 million. Tax expense was higher in FYE 2016 due to an increase in the PBT earned in Malaysia in FYE 2016 as compared to FYE 2015. Nonetheless, the effective tax rate in FYE 2015 increased to 8.3% from 1.9% as a result of higher overall PBT contribution from Malaysia.

2.8 PAT AND PAT MARGIN

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
PAT	61,619	67,373	156,562	245,809	151,440
PAT margin	11.49%	8.91%	11.16%	11.34%	10.75%

Our PAT increased by 57% from RM156.6 million in FYE 2015 to RM245.8 million in FYE2016. PAT margin slightly increased from 11.16% in FYE 2015 to 11.34% in FYE 2016.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.9 CASH FLOWS ANALYSIS:

A summary of our cash flows for the periods indicated are set out below:

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Net cash (used in)/from operating activities	(8,892)	51,201	158,538	90,787	56,412
Net cash used in investing activities	(33,601)	(78,669)	(316,066)	(242,686)	(75,458)
Net cash from financing activities	51,408	38,009	211,847	114,394	62,777
Net increase/(decrease) in cash and cash equivalents	8,915	10,541	54,319	(37,505)	(43,731)
Cash and cash equivalents at the beginning of year/period	2,231	11,708	22,300	77,521	-
Effect of exchange rate fluctuations on cash held	562	51	902	3,715	-
Cash and cash equivalents at end of year	11,708	22,300	77,521	43,731	43,731
Cash and cash equivalents comprise the following:					
Term deposits placed with licensed banks	36,021	53,236	105,787	133,031	133,031
Cash and bank balances	21,022	26,813	88,827	54,322	54,322
	57,043	80,049	194,614	187,353	187,353
Less: Bank overdrafts	(9,314)	(4,513)	(11,306)	(10,591)	(10,591)
Pledged deposits	(36,021)	(53,236)	(105,787)	(133,031)	(133,031)
	11,708	22,300	77,521	49,731	43,731

Our cash and cash equivalents are mostly held in RM and USD as we operate overseas. Where cash are held in USD, there will be exchange rate fluctuations on the cash held.

There are no legal, financial or economic restrictions on our subsidiaries' ability to transfer funds, subject to availability of distributable reserves and compliance with financial covenants, to our Company in the form of cash dividends, and/or loans or advances.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.9 CASH FLOWS ANALYSIS: (CONT'D)

Net cash (used in)/from operating activities

For FYE 2016, we generated operating profit before working capital changes of RM374.9 million. After taking into account the key items set out below, our net cash from operating activities was RM80.4 million:

- (i) RM251.1 million increase in inventories to cater for on-going and recurring contracts and work orders;
- (ii) RM286.4 million increase in trade and other receivables. Both trade and other receivables increased due to the increase in operations both locally and overseas; and
- (iii) RM258.2 million increase in trade and other payables. Trade and other payables also correspondingly increased due to the increase in operations both locally and overseas.

Net cash used in investing activities

For FYE 2016, we recorded net cash used in investing activities of RM242.69 million comprising mainly:

- (i) RM198.17 million used in acquisition of property, plant and equipment which was mainly attributed to the purchase of tools and equipment, plant and machinery, and land; and
- (ii) RM48.28 million increase in fixed and term deposits pledged to banks.

Net cash from financing activities

For FYE 2016, we recorded net cash from financing activities of RM114.39 million comprising mainly:

- (i) RM167.33 million net proceeds from loans and borrowings, primarily of drawdowns on trade loans, revolving credits and bank overdrafts used to finance new contracts; and
- (ii) RM35.32 million of interest paid and net repayment of finance lease liabilities and repayment of financing cost for the RCPS of Serba Dinamik International.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.10 LOANS AND BORROWINGS

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Borrowings					
Short Term Borrowings	122,773	190,429	440,934	623,432	623,432
Long Term Borrowings	27,951	20,789	32,396	16,229	16,229
Total Borrowings	150,724	211,218	473,330	639,661	639,661

As at 31 December 2016, our total outstanding loans and bank borrowings, all of which were interest-bearing, amounted to RM639.66 million as set out below:

	Interest Rate Terms	Short term (Payable within 12 Months) RM'000	Long term (Payable after 12 Months) RM'000	Total RM'000
Term loans (Islamic) - secured	7.20%-15.50%	1,955	5,919	7,874
Term loans - secured	4.25%-4.77%	1,550	3,352	4,902
Finance lease liabilities - secured	1.05% - 9.55%	2,778	6,958	9,736
Bank overdrafts (Islamic) - secured	8.00%-9.00%	5,074	–	5,074
Bank overdrafts - secured	8.00% - 9.00%	5,517	–	5,517
Bankers acceptance – secured	3.50%	300	–	300
Revolving credits (Islamic) - secured	3.00%-9.10%	529,169	–	529,169
Revolving credits - secured	7.85 - 9.10%	77,089	–	77,089
Total				639,661
Gross Gearing ratio ⁽¹⁾				0.78

Note:

(1) Computed based on total borrowings divided by total equity of RM817.14 million as at 31 December 2016.

The major borrowings we incurred as at 31 December 2016 are revolving credits and secured trade loans which accounted for 94.78% of our total borrowings. Revolving credits of RM529.2 million and RM77.1 million for Islamic and conventional respectively were used to finance new and existing contracts in hand.

Islamic and conventional term loans of RM12.8 million relate to the purchase of property, plant and equipment. Finance lease liabilities of RM9.7 million were mainly used to finance the purchase of motor vehicles, while Islamic and conventional bank overdrafts of RM10.6 million (both Islamic and conventional) were used to finance our regular day-to-day operations and RM0.3 million bankers' acceptances were used to finance purchases from our suppliers.

Revolving credits as well as trade loans increased in line with our increase in working capital requirement which supported our revenue growth for FYE 2016.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

2. HISTORICAL FINANCIAL INFORMATION (CONT'D)

2.10 LOANS AND BORROWINGS (CONT'D)

As at 31 December 2016, our floating and fixed rate borrowings are set out below:

	As at 31 December 2016		
	(1) Floating Rate Borrowings RM'000	(2) Fixed Rate Borrowings RM'000	Total RM'000
Borrowings			
Borrowings	619,334	20,327	639,661

Notes:

(1) Comprise revolving credits, term loans and trade loans.

(2) Comprise finance lease liabilities, bank overdrafts and bankers' acceptances.

We have not defaulted on payments of principal sums and/or finance/interests in respect of any borrowings throughout FYE 2016. As at the date of this report, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangements or borrowings which can materially affect our Group's financial position and results of business operations.

Currently, our Group does not have any interest rate hedging policy. We will monitor the interest rate movements and will take necessary steps to minimise interest rate risk whenever deemed appropriate such as implementing a hedging policy. Most of our financing /borrowings are short term in nature.

2.11 KEY FINANCIAL RATIOS

	Serba Dinamik Group Berhad Financial Year Ended				Serba Dinamik Holdings Berhad Financial Period from 25/5/2016 – 31/12/2016
	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	RM'000
Current Ratio	2.02	1.72	1.31	1.30	1.30
Gross Earning	0.76	0.78	1.00	0.78	0.78
Net Gearing	0.47	0.48	0.59	0.49	0.49
Receivables Turnover (Days)	102.45	91	76	88	79*
Payables Turnover (Days)	34.23	44	50	68	60*
Inventory Turnover (Days)	90.32	98	67	73	65*
Earning Per Share (RM)	0.95	1.03	2.52	3.33	0.14

* Figures under Serba Dinamik Holdings Berhad are annualised.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

3. RISKS RELATING TO THE GROUP

Our financial condition and results of operations have been, and are expected to be affected by, but are not limited to the following factors:

3.1 LEVEL OF ACTIVITY IN THE O&G INDUSTRY IN MALAYSIA AND OVERSEAS

Our revenue is predominantly derived from our customers in the O&G industry. Accordingly, the level of activity in the O&G industry will impact the level of demand from our customers for our products and services. 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 sectors such as maintenance of assets particularly in the production of crude oil and natural gas and downstream refineries, processing and petrochemical plants, are, to a certain extent, less affected as operations would still have to continue.

Our customers or projects are primarily in the production and refining segments of crude O&G products. In contrast to upstream exploration activities which are more susceptible to a clamp down on capex due to lower crude oil prices, our customers who are in the production stages would be focusing on making their existing wells more efficient and ensuring that interruptions in production is minimised. This would then facilitate the need for MRO and IRM services. Meanwhile, our customers that operate in the downstream O&G segment is mainly involved in, among others, refining and processing of O&G, and manufacturing of petrochemical products. These companies, which include, among others, refineries, gas processing plants, LNG liquefaction plants and petrochemical plants would be less affected as they benefit from the lower crude O&G as feedstock for their processing and manufacturing operations.

In general, O&G, and power generating 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.

3.2 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 generation industry. Our revenue growth will depend on our ability to secure both maintenance and EPCC contracts in the O&G, and power generation industries.

In Malaysia, we have built our reputation and business network to secure projects and contracts from our new and existing customers. We have managed to maintain a strong and sustainable relationship with our existing customers with the longest spanning over 20 years. For our overseas operations, however, apart from our reputation and business network, we may need to work with our foreign business partners to secure overseas projects and contracts. Our competitive strengths and foreign business partners are expected to provide us the leverage to secure projects and/or contracts.

Our strengths include:

- (i) having 23 years' experience in providing MRO of rotating equipment to the O&G industry;
- (ii) having a growing, profitable company supported by prudent financial track record;
- (iii) being a PETRONAS licensed company in Malaysia;
- (iv) having strong records in HSE and having implemented various safety and quality standards for our operations; and
- (v) having an experienced management team.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

3. RISKS RELATING TO THE GROUP (CONT'D)

3.3 PROCUREMENT AND/OR RENEWAL AND DURATION OF CONTRACTS

The procurement and/or renewal and duration of our contracts are one of the main drivers to our revenue.

Our maintenance contracts are generally for terms of between two and five years. As the O&M services activities undertaken by our customers may be recurring in nature in view of the scheduled requirement for maintenance, our revenue growth would depend on our ability to secure new or obtain a renewal of the maintenance contracts upon the completion, expiry or termination of existing maintenance contracts. The revenue and cost components of our maintenance contracts are dependent on the nature of the contracts.

In relation to the EPCC segment, the duration of the contracts secured by our Group would depend on the nature and complexity of the EPCC contract. One of our strategies in securing EPCC contracts is to offer O&M services after the EPCC contracts have been completed to provide us with recurring income over the period of maintenance contracts.

As the nature of our activities is service-oriented, our commitment on the service level provided throughout the contract period is critical for us. We think such commitment is important in building strong and long-term business relationships with our customers, and ensuring the sustainability and growth of our business. The commitment to service levels is also critical as the revenue from the contracts under the O&M services are dependent on work orders. Revenue from these contracts are not generated at the time the contracts are awarded unless the work orders are requested by the customer and carried out in accordance with the terms of the contracts. Our Group's results of operations and financial conditions may be materially and adversely affected if there is a decrease in the work orders issued.

3.4 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, and are typically based on the following methods of determining our rates:

- (i) lump sum method where we negotiate and secure a contract that has a pre-determined cost value of work order but with built-in unit rates for the various types of equipment required; or
- (ii) cost plus method where we secure a contract which has a fixed mark-up to the cost value of work orders i.e. cost plus mark-up; or
- (iii) unit rate method where we agree upon fixed rates for parts, machines and services that are provided to our customers upon their requisition.

Under all three methods, we are required to estimate, manage and monitor our cost of operations to ensure adequate margins can be earned from each contract. Failure to perform the right estimate, management or monitoring of our costs for a contract will result in us deriving a lower margin on a particular contract.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

3. RISKS RELATING TO THE GROUP (CONT'D)

3.5 DEPENDENCE ON SKILLED PROFESSIONALS/ENGINEERS

As an energy services group providing engineering solutions and serving customers in O&G, and power generation industries, 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 experience technical professionals.

Nonetheless, in line with our continuous requirements for skilled-based human resources, we also provide technical training as part of our other products and services segment. We have two City & Guilds Approved Centres in Bintulu, Sarawak and Paka, Terengganu in Malaysia. City & Guilds is a vocational education organisation in the UK offering more than 500 qualifications across more than 80 countries. Personnel trained by us may be hired by us upon successful completion of their respective qualifications.

3.6 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.

3.7 IMPACT OF FOREIGN EXCHANGE/INTEREST RATES ON RESULTS OF OPERATIONS

For FYE 2015 and FYE 2016, 65.4% and 64.5% of our revenue were derived from countries outside of Malaysia, respectively. However, we do not use any hedging instruments in our daily operations. Therefore, 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.

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.

As at 31 December 2016, we have RM639.66 million of borrowings. Of our total borrowings, RM619.33 million, or 96.82%, as at 31 December 2016 are floating-rate loans. Therefore, any increase in the interest rate of our borrowings would increase our interest expense and therefore, adversely affect our profitability.

3.8 OVERSEAS OPERATIONAL RISKS

We have expanded our products and services into Indonesia, Turkmenistan, India, UK and the Middle East region. For FYE 2015 and FYE 2016, 65.4% and 64.5% of our revenue were derived from countries outside of Malaysia, respectively. 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 interest rates or tax rates, risks of war and global economic downturn.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

3. RISKS RELATING TO THE GROUP (CONT'D)

3.9 IMPLEMENTATION OF EXPANSION PLANS TO OWN AND OPERATE FACILITIES

Our growth will continue to be driven by O&M services and EPCC works, but as an extension of our core competencies in providing maintenance services, we plan to expand our asset ownership business model to diversify our revenue streams. We have started to embark on this strategy with our first CNG plant in Muaro Jambi, Sumatra in Indonesia.

The physical construction and installation of equipment in the CNG plant were completed in June 2016. We commenced operations with the commissioning of the CNG plant and gas-instreaming which was conducted on 25 November 2016. Under our asset ownership business model, we will generate revenue in the form of sales of CNG using the provisional CNG trading permit issued to PD Muaro Jambi.

We will continue to expand on our asset ownership business model in Indonesia to own, operate and maintain small gas power plants and water utilities. We expect to generate revenue in the form of sales of power and provision of water treatment.

In addition, we intend to expand our operational facilities in Malaysia and overseas. A protracted delay in the above mentioned plans will materially affect the implementation of our business plans and consequently our financial performance.

4. CAPITAL STRUCTURE AND CAPITAL RESOURCES

Our working capital is funded through cash generated from our operating activities, credit extended by our suppliers, credit lines and borrowings from financial institutions, as well as our existing cash and cash equivalents. As at 31 December 2016, our cash and cash equivalents remained healthy at 187.4 million. Our working capital was marked at RM340.98 million being the figure difference between current assets and current liabilities.

Utilisation of Proceeds	Estimated Timeframe for Utilisation	Proposed Utilisation (RM'000)	Percentage (%)	Actual Utilisation (RM'000)	Actual Utilisation (%)
Expansion of business & operational facilities	Within 36 months	300,000	73.7	-	-
Working capital	Within 36 months	29,300	7.2	20,000	68.3
Repayment of bank borrowings / financing	Within 12 months	60,000	14.7	60,000	100.0
Estimated listing expenses	Within 6 months	17,800	4.4	14,018	78.8
Total Gross Proceeds		407,100	100.0	94,018	23.1

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

4. CAPITAL STRUCTURE AND CAPITAL RESOURCES (CONT'D)

Post-Listing, we have earmarked RM94 million or 23.1% of the RM407.10 million in total Initial Public Offering (“IPO”) proceeds as working capital to finance the day-to-day operations of the Group, which includes:

- i. Approximately RM20 million had been utilized for working capital requirement;
- ii. Approximately RM60 million had been utilized for the repayment of bank borrowings/financing which we took prior to the listing to finance our operation in Indonesia and working capital requirements; and
- iii. Approximately RM14 million are paid in regards to the listing expenses which include Professional fees, fees to authorities, underwriting, placement and brokerage fees, and printing, advertising and roadshow.

By taking into account our working capital resources, funding requirements for capital commitments, and IPO proceeds, the Board is of view that we will have sufficient working capital for the upcoming financial years.

5. FORWARD LOOKING

According to the Independent Market Research report (“IMR report”) prepared for our Prospectus, the global demand for oil and gas are both expected to grow at a Compound Annual Growth Rate (“CAGR”) of 1.3% between 2016 and 2020. The report also estimates that the maintenance and capacity replacement of global crude oil refineries will require investments of more than US\$900 billion between 2015 and 2040, indicating an annual average investment of US\$36 billion, mainly driven by the Asian Pacific region as well as the American region.

Locally, regardless of the spending cut announced by PETRONAS in early 2016, PETRONAS remains committed to its downstream projects, which includes the Refinery and Petrochemical Integrated Development (“RAPID”) in Pengerang, Johor, and Sabah Ammonia Urea (“SAMUR”) as well as its specialty chemical projects in Kuantan, Pahang.

Within the power generation industry, as indicated by the IMR report, the total global installed power generating capacity is forecasted to grow at a CAGR of 1.6% between 2016 and 2020, driven mainly by the growth in the Asian Pacific region. Meanwhile, the forecasted growth for Africa and Middle East regions are expected to grow at a faster rate than global growth, albeit at a lower base. In the same period, the forecasted average annual investment in power generating capacity is estimated to be at least US\$400 billion with majority investments located in the Asian Pacific region.

In Malaysia, the Generation Development Plan for 2015 to 2025 included development of a total of 19 power projects with a combined installed capacity of 9,912 MW in Peninsular Malaysia and Sabah. There are also a number of development plans for the power generating industry in Sarawak. We also see opportunities in Indonesia for the development of power generating plant. The Government of Indonesia has set a goal to develop the country's power infrastructure to meet the increasing demands for electricity consumption which is expected to increase at a CAGR of 8.7% per year between 2015 and 2024.

Despite lower crude oil and natural gas prices, the Board is positive of the prospects of the asset maintenance services market, which is expected to be lightly impacted by the downtrend in the O&G industry. This is because operations in the upstream and downstream sectors would still require maintenance services in order to prolong the life of equipment and structures used in the O&G and power generating machines. The reassuring result is as reflected on our financial performance over the past three years prior to Serba Dinamik becoming a listed entity.

MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

(Cont'd)

5. FORWARD LOOKING (CONT'D)

After our listing exercise, the focus now is on expanding our business through industry diversification, market expansion and broadening our product and services. By leveraging on our established experience in asset maintenance services, we believe that our upcoming expansion plans will achieve great success, further driving the Group to accomplish bigger milestones. Our strategies to achieve this is through strategic acquisition/investment or adopting an asset ownership business model.

The acquisition of minority stake of KAJV in February 2017 as mentioned in the previous section was our first step to diversify our business into other industries. It will provide growth opportunities for us as well as showcase our competency to the industry. In addition to the revenue derived from the EPCC contract that we obtained out of this acquisition, it will also provide a recurrent income from the share of profit of KAJV as well as opportunities to grow our O&M business in the water treatment industry.

Our market expansion plan basically focuses on expanding our existing markets as well as looking for new markets in different geographic areas. We have always believed that there are more opportunities for our business to grow in the middle east and this is represented by our track record in previous years. This also enables us to explore nearby regions such as the African continent which we do not have any presence yet. The African continent possesses rich resources and offers a lot of opportunities in the oil & gas and power generation industries.

MRO of rotating equipment and IRM of Process & Static equipment have always been our core competencies. We are considering to broaden our expertise into different industries such as MRO of large diesel engines for the marine industry and moving into specialised areas that we are currently not involved in, such as MRO of hot section of gas turbine and IRM of rotor blade of gas turbine.

With the plan we have set, we strongly believe that the group is well-equipped to sustain our business and able to achieve our vision to excel globally as a total technical engineering and commercial service provider.

DIVIDEND

Depending on the various factors as outlined below, it is the intention of the Board to adopt a dividend pay-out ratio of at least 30% of our PAT attributable to the owners of our Group for each financial year, excluding any unrealised income from adjustment due to accounting policies that are non-cash in nature:

1. Our level of cash, gearing and return on equity and retained earnings;
2. Our expected financial performance;
3. Our projected levels of capex and other investment plans;
4. Our working capital requirements; and
5. Any contractual restrictions and/or commitments

Corporate Sustainability Report

REPORT SCHEDULE AND PERIOD

This report provides a summary of the activities for financial period ended 31 December 2016 (25 May 2016 to 31 December 2016) (FPE 2016), unless otherwise stated.

Current Issue:	April 2017
Next issue:	Scheduled for April 2018
Previous issue:	n.a(1)

Note: Serba Dinamik Holdings Berhad's Sustainability Report is not available prior to 2017. Serba Dinamik holding Berhad was listed on Bursa Malaysia Securities Berhad on 8 February 2017.

ORGANISATION BOUNDARIES

This report covers the operations of the Group in Malaysia and foreign countries. It includes majority owned subsidiaries (greater than 50.0% shareholdings), unless otherwise stated. Acquisitions are included in data sets once they are legally owned and fully integrated into the corporate structure of the 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.

REFERENCE GUIDELINES

The Group has developed this report using GRI G4 Guidelines.

REPORTING APPROACH – DATA

Serba Dinamik Holdings Berhad and its subsidiaries operate as The Group. In this report, unless otherwise noted, "The Group" or "our Group" refers to the combined group.

The information provided in this report is based on activities during the Group's FPE 2016. For some performance indicators, FPE 2016 numbers are annualised to allow for annual comparisons either against the year before or against industry figures or averages.

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 the report.

ASSURANCE

Financial data in this report has been independently assured as part of the Group annual financial audit. Other source of information and data in this report includes Serba Group's initial public offering prospectus dated 30 December 2016.

DISCLAIMER

This report 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.



Corporate Sustainability Report

(Cont'd)

PRODUCTS AND SERVICES

We are an international energy services group providing engineering solutions to the oil and gas, and power generation industries. As an engineering solutions provider, our business activities comprise of O&M services, EPCC as well as other products and services.

Within O&M services, we carry out maintenance, repair and overhaul (MRO) of rotating equipment as well as inspection, repair and maintenance (IRM) of static equipment and structures. The types of rotating equipment we service include gas and steam turbines, engines, motors, pumps, compressors, industrial fans and blowers. Meanwhile, the type of static equipment and structures that we service include boilers, unfired pressure vessels, piping systems and structures. The rotating and static equipment and structures that we service are usually located in, among others, oil and gas production platforms, gas processing plants, oil refineries, petrochemical manufacturing plants, power generation plants and LNG plants.

IRM OF PROCESS EQUIPMENT - BOILERS



MRO OF ROTATING EQUIPMENT - GAS TURBINE AND POWER GENERATOR



For the power generation industry, we service independent power producers as well as oil and gas customers with captive power generation facilities. In addition, we have the capabilities to carry out EPCC of plants, facilities, road infrastructure and buildings including small hydropower plants, Compressed Natural Gas ("CNG") plants, microturbine generators, steel structures, piping systems and firefighting systems.

We also provide other products and services which include provision of technical training, provision of ICT solutions and services, supply of products and parts, as well as provision of logistics services.

Corporate Sustainability Report

(Cont'd)

OUR CNG PLANT IN INDONESIA



CUSTOMERS

For our business in Malaysia, we mainly provide services directly to plant owners and operators comprising of oil and gas operators, gas processors and oil refiners, petrochemical manufacturers, independent power producers and others. Meanwhile, for our overseas business operations, we work with our customers who are mainly engineering companies and contractors to provide services to plant owners and operators.

OUR MARKETS

For FPE 2016, our revenue came from the following markets:

Revenue Contributor	Proportion of Total Revenue (%)	Revenue Contributor	Proportion of Total Revenue (%)
Malaysia	36.0	Indonesia	7.3
Qatar	18.5	Kuwait	3.3
Saudi Arabia	11.7	Oman	2.4
Bahrain	10.4	Turkmenistan	2.2
UAE	8.1	United Kingdom	0.1

EPCC OF PIPING SYSTEMS



Corporate Sustainability Report

(Cont'd)

OUR GLOBAL PRESENCE AND FACILITIES



MEMBERSHIPS

Our Group is a member of the Malaysian Oil and Gas Services Council (MOGSC) and Institute of Materials Malaysia (IMM).

MOGSC is an association that represents and promotes the interest of Malaysian oil and gas service providers. As a member, we are involved in promoting the growth of the oil and gas industry, where a growing industry will benefit the country, the industry players as well as our business.

IMM is a professional society that promotes honourable practices, professional ethics and encourages education in materials science, technology and engineering. Our Group CEO, Dato' Dr. Ir. Haji Mohd Abdul Karim Abdullah, is the council member for IMM for 2016 to 2018. As a member, we are involved in the progress and development of knowledge in materials science, technology and engineering.

Dato' Dr. Ir. Haji Mohd Abdul Karim Abdullah is also the Chairman of the Vibration Committee of IMM where he is spearheading the development of local knowledge and certification of ISO 18436 compliant practitioners in vibration analysis, a powerful diagnostic tool in asset integrity management of rotating equipment, static equipment, piping, and foundation resonance conditions. The said certification is recognised internationally. The Group has sponsored many technology related seminars, exhibitions, and industrial visits for vibration analysis in support of this advanced diagnostic technology.



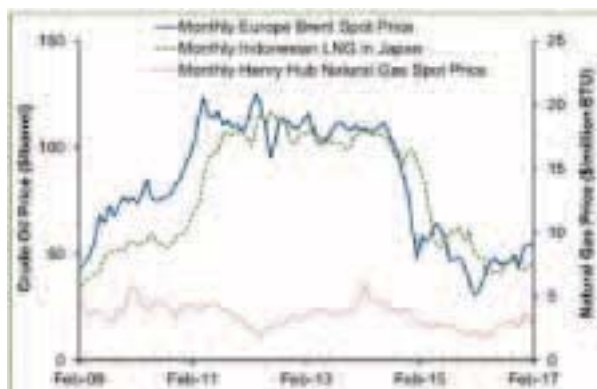
Corporate Sustainability Report

(Cont'd)

INDUSTRY IMPACT ON OUR BUSINESS

We are an energy services group providing engineering solutions to the oil and gas and power generation industries globally. Within the energy industry, the performance of the oil and gas, and power generation sectors will have an impact on our business operations. The oil and gas, and power generation industries are asset intensive industries involving large investments in plant facilities and equipment. Therefore it is critical that plant facilities and equipment work effectively and efficiently to extract, process or refine oil and gas, or to generate power. In the current global competitive landscape, asset maintenance is imperative to ensure that plant facilities and equipment are operating at its optimum level.

OIL AND GAS



In 2016, the overall oil and gas sector has been affected by the fluctuations in crude oil prices. Since June 2014, the average monthly price of Brent crude oil, a global price benchmark, had declined by 57.3% from USD112 per barrel in June 2014 to USD48 per barrel in January 2015. The average monthly price of Brent crude oil then rebounded slightly to close at USD64 per barrel in May 2015 before falling further to a 12-year low of USD30 per barrel in January 2016. In late June 2016, the result of the UK's vote to exit the European Union contributed to the fall in crude oil prices below USD50 per barrel. In early 2017, crude oil prices improved to reach approximately USD55 per barrel in February 2017 resulting from adjustments in production by OPEC and some of the non-OPEC producers in the market, however gains were capped due to an increase in drilling activities in the US.

During the fluctuations in crude oil prices, we leveraged on our core competencies in MRO and IRM services to keep our customers' plant and facilities operating effectively and efficiently with the aim of minimising costly breakdowns and downtime.

One of the reasons for the depressed crude oil and gas price is that supply exceeds demand. For our MRO and IRM services, as long as there is supply, it will require assets to extract, process and refine oil and gas. Any increase in the supply of oil and gas will benefit our MRO and IRM services.

Nevertheless, demand must eventually keep pace with supply for the overall sustainability of the oil and gas industry.

Between 2016 and 2020, demand for oil in the global market, Middle East and Asia and Pacific are projected to grow at a Cumulative Annual Growth Rate ("CAGR") of 1.30%, 2.60% and 2.60% respectively. Between 2016 and 2020, demand for gas in the global market, Middle East, Asia & Pacific are projected to grow at a CAGR of 1.30%, 1.80% and 3.20% respectively. The growth in demand for oil and gas will continue to provide us with business opportunities where we can create value by maintaining the integrity of our customers' assets, thus prolonging their lifecycle to deliver economic value to the community.

Corporate Sustainability Report

(Cont'd)

POWER GENERATION

Between 2016 and 2020, the total power generating capacity in the global market, Middle East, and Asia and Pacific is forecasted to grow at a CAGR of 1.60%, 2.00% and 2.50% respectively. Forecasted power generating capacity impacts on the demand for maintenance services of power generation plants.

We are involved in the power generation industry in Indonesia through our small gas power plant in Ambon Island, Indonesia. Developments in the power generation industry in Indonesia will continue to provide opportunities for power producers. Under Indonesia's Power Supply Business Plan ("RUPTL") 2015-2024, the Government of Indonesia has outlined a goal for the development of the country's power infrastructure to meet the increasing demands for electricity consumption, which is expected to increase at a CAGR of 8.70% per year between 2015 and 2024. The developments in the power generation industry in Indonesia above will continue to provide opportunities for the development of our power plants in Indonesia. (Source: Prospectus of Serba Dinamik Holdings Berhad dated 30 December 2016)



Corporate Sustainability Report

(Cont'd)

OUR SUSTAINABILITY FRAMEWORK

SUSTAINABILITY PRINCIPLES AND VALUES

Business growth is key to our sustainability. This drives us to innovate and broaden our product and service offerings, and expand our markets globally.

Our employees drive our business growth. We reward our people at competitive market rates and help advance their personal and career development. Health and safety of our people is our top priority and this governs the economic decisions that we make as a business entity.



A sustainable business must operate based on fair business practices. This provides us with the framework for conducting our business ethically while complying with regulations diligently, and compete fairly.

Our business operates within an ecosystem encompassing the environment and the community. Preserving the quality air, water and land would allow us to operate unhindered. A thriving community creates increased consumption which sustains our business.

OUR STAKEHOLDERS IDENTIFIED

Our stakeholders are those that have interest in our business, and those that derive benefits directly and indirectly from our business. All of them have a common bond with us to ensure that our business is sustainable.



Corporate Sustainability Report

(Cont'd)

SHAREHOLDERS/INVESTORS

How we communicate

- Annual general meeting
- Quarterly reporting
- Extraordinary general meeting when required
- Investors briefing when required
- Road shows for fund raising when required
- Shareholders' circular when doing corporate exercises
- Annual reports

CUSTOMERS

How we communicate

- Sales initiation consistently
- Project reporting regularly
- Exhibitions and conferences where relevant
- Acknowledgements and awards at customers' initiations
- Publications occasionally
- Press releases where relevant
- Company website permanently

EMPLOYEES

How we communicate

- Management visits to all local and foreign operations regularly
- Staff meetings regularly
- Work interactions regularly
- Internal memorandums regularly
- In-house training where required
- Social activities occasionally

BUSINESS PARTNERS

How we communicate

Principals

- Business meetings regularly
- Staff training when required
- Product demonstrations and updates when required
- Sales reports periodically

Joint-Venture Partners

- Directors meeting periodically
- Annual general meetings
- Extraordinary general meetings
- Reports regularly
- Annual reports

Project Partners

- Project meetings regularly
- Progress report regularly
- Performance review periodically

ISSUES THAT MATTER

How we communicate

Shareholders/Investors

- Profitability
- Corporate governance
- Low crude oil and gas prices

Customers

- Health and safety
- Cost reduction
- Quality

Employees

- Health and safety
- Training and development
- Equal opportunity

Business Partners

- Ethical business practices

Suppliers

- Prompt payment
- Health and safety

Government/Authority

- Compliance
- Industry development
- Technology transfer

Community

- Job creation

SUPPLIERS/CONTRACTORS

How we communicate

- Registration of interests and call for tenders when required
- Progress reports regularly
- Performance review when required
- Meetings regularly

GOVERNMENT/AUTHORITIES

How we communicate

- Licences, permits, registrations and certification applications and renewals when required
- Proposals when required
- Compliance and audit when required
- Consultative meetings when required
- Meetings when required

COMMUNITY

How we communicate

- Undertaking social and charitable activities when required
- Press releases where relevant
- Meetings with government and non-governmental organisations where relevant

Corporate Sustainability Report

(Cont'd)



WHAT WE STAND FOR

We are charged with the stewardship of Serba Group. As a commercial enterprise we have an ongoing obligation to our shareholders to create economic wealth. At the same time, we are aware that in discharging our obligations, we operate within a wider ecosystem comprising various stakeholders, the countries that we derive economic benefits as well as the environment that sustain all of us.

As such, we have developed an overall framework and guiding principles for the continuing operation and sustainability of our business.

OUR VISION

To excel globally as a recognised Total Technical Engineering and Commercial Service Provider.

OUR MISSION

In striving to achieve our vision, our mission is to continuously be:

- The most highly regarded value-adder in terms of safety, quality and effectiveness
- The first choice for customers that they need not look for other alternatives
- Profit contributor to our shareholders

Corporate Sustainability Report

(Cont'd)

WHAT WE STAND FOR

In carrying out our mission, we abide by the following value systems:

- **Shareholders:** Our shareholders are the owners of the enterprise. We will strive to create wealth for our shareholders.
- **Customers:** Customers are the only reason we are in business and we rely on them to sustain our business. As such, we will continuously engage with them, provide them with quality products and services, and to help them meet the challenges of their operating environment, and to facilitate the creation of wealth for their shareholders.
- **Products and Services:** Quality of products and services continue to be key in meeting the needs and expectations of our customers. As such, we will continually improve on the quality of our products and services. We embrace improvements and innovation in our products, services, delivery systems and processes which is critical in sustaining and to growing our business.
- **People:** We value the contribution of our people and recognise that our success is dependent on their continuing development in skills, expertise and knowledge. We will help them advance in their career and personal development. We strive to be one of the best companies to work for and in that respect, we will continue to promote a working environment that is based on equality, merits, ethics, teamwork, honesty, respect, understanding and compassion premised on an open door policy with management.
- **Suppliers:** Our suppliers are our business partners and we work with them to effectively and efficiently meet the needs of our customers. We employ fair practices and transparent procedures to ensure that our suppliers enjoy mutual benefits for sustainable business partnerships.
- **Global Reach:** As we strive to be a global enterprise, we will use local talents and resources of the country where we operate. At the same time, we will continually develop such local talents, provide economic benefits and contribute to the community in the country where we operate.
- **Community:** We operate in an ecosystem that involves the greater community comprising citizens and residents, government and other organisations. To sustain our business, we will exercise corporate social responsibility which would include, among others, helping the less fortunate, encouraging talents while assisting in the respective social environments.
- **Environment:** We recognise that we share the environment with everyone on this earth. As an ISO14001 certified company operating within the energy sector, we are keenly aware of diminishing non-renewable resources and the negative impact some of these resources may have on the environment. As such, in planning, developing and operating our business we aim to minimise any negative impact on the environment. Where practical, we would pro-actively source and champion renewable energy resources, and help improve the environment for all of us.

OUR BOARD IS COMMITTED TO ACHIEVING AND SUSTAINING HIGH STANDARDS OF CORPORATE GOVERNANCE. IN REGARDS TO THE ABOVE, OUR BOARD WILL USE ITS BEST ENDEAVOUR TO COMPLY WITH THE MCCG 2012.



Corporate Sustainability Report (Cont'd)

OPERATIONAL PERFORMANCE

For the financial period ended 31 December 2016*, we achieved robust financial results with Group revenue of RM1.4 billion and operations profit of RM184.0 million.

Our O&M segment continued to be our main revenue contributor at RM1.3 billion or 88.9% of our Group's total revenue for FPE 2016. This was followed by EPCC at RM152.4 million as well as other products and services at RM3.3 million, representing 10.8% and 0.2% of total revenue respectively.

In FPE 2016, we served customers in the following regions:

- Asia (Malaysia, Indonesia, Turkmenistan and India)
- Middle East (Qatar, Kingdom of Saudi Arabia, Bahrain, United Arab Emirates, Kuwait and Oman);
- Europe (United Kingdom).

In FPE 2016, Middle East contributed the highest proportion of our revenue. Revenue from Malaysia amounted to RM506.7 million, which represented 36.0% of total revenue.

We will use the knowledge from our existing markets to increase our coverage to additional countries in the Middle East and Central Asia as well as in new regions including Africa.

*Financial period ended 31 December 2016 was for seven months ending 25 May 2016 to 31 December 2016.

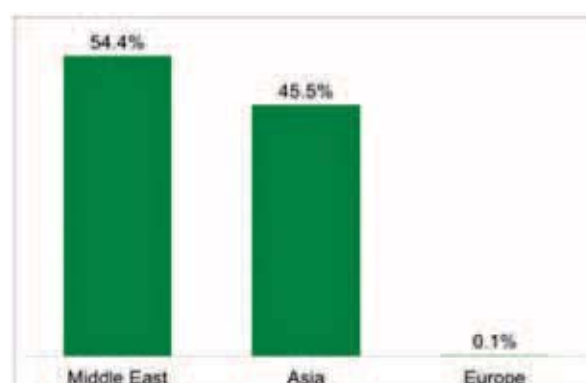
FPE 2016

RM1.4 billion Total Revenue

RM184 million Operations Profit

14.24 sen Net Earnings per Share

13.1% Return on Assets



Corporate Sustainability Report

(Cont'd)

SHARE PERFORMANCE

We strive to unlock value for our shareholders. Our business made improvements in FPE 2016 and these are as follows:

	2015 ¹	2016 ²
Share Backing		
Earnings Per Share (sen)	11.73	14.24
Net Assets Per Share (RM)	0.36	0.77
Share Financial Ratio		
Return on shareholders' equity (%)	32.9	31.9 ³
Return on total assets (%)	12.4	13.1 ³
Debt equity ratio (times)	1.00	0.79
Interest coverage (times)	6.87	9.42
Current ratio (times)	1.31	1.30

1 Financial information for 2015 was based on 12-month financial year ended 2015. This data was extracted from the Prospectus of Serba Dinamik Holdings Berhad dated 30 December 2016.

2 Financial period ended 31 December 2016 was based on financial period from 25 May 2016 to 31 December 2016.

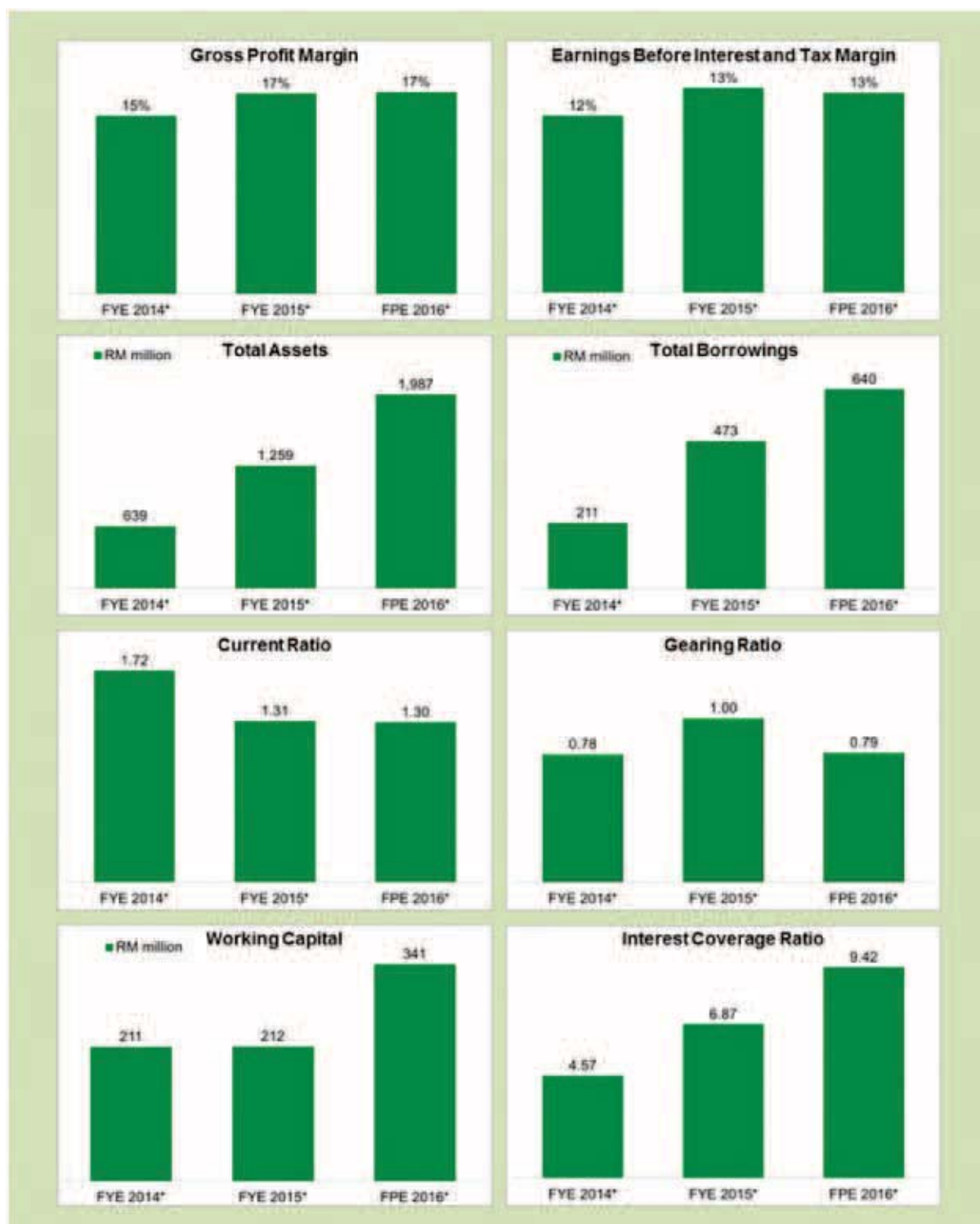
3 Based on the Group's annualised earnings for financial period from 25 May 2016 to 31 December 2016.

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Corporate Sustainability Report

(Cont'd)

KEY FINANCIAL RATIOS



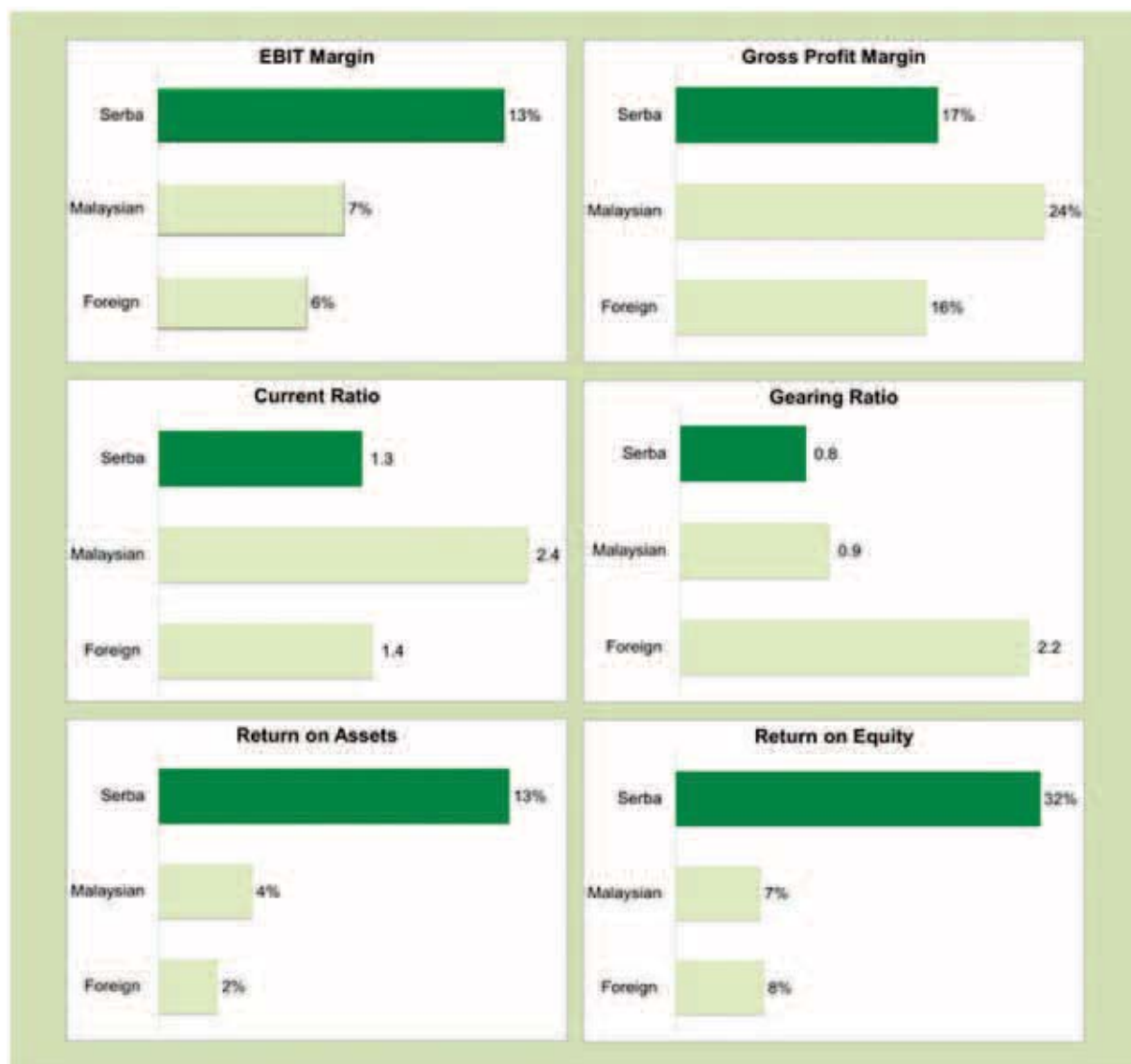
* FYE 2014 and FYE 2015 were based on 12-month financial year ended 31 December 2014 and 2015 respectively, and the data was extracted from the Prospectus of Serba Dinamik Holdings Berhad dated 30 December 2016. FPE 2016 is for the financial period from 25 May 2016 to 31 December 2016.

Corporate Sustainability Report

(Cont'd)

INDUSTRY COHORT BENCHMARK

We have undertaken benchmarking to provide our relative performance to our peers. Two cohort groups comprising companies or groups with comparable operations were used as benchmarks.



1 Malaysian cohort is the average of 11 selected comparable companies or groups whose head offices are in Malaysia. It excludes Serba Dinamik Group.

2 Foreign cohort is the average of 14 selected comparable companies or groups whose head offices are outside of Malaysia. It excludes Serba Dinamik Group.

3 Companies or groups within each cohort group consist of selected operators that undertake asset maintenance for the oil and gas, and power industries in Malaysia or Middle East. This is to ensure that companies or groups selected for benchmarking have business operations that are comparable to Serba Dinamik Group.

4 The source of comparable companies was taken from the Prospectus of Serba Dinamik Holdings Berhad dated 30 December 2016. From this list, only companies or groups with available financial information were included. While their latest financial information was used, their financial years may differ from Serba Dinamik Group's financial period.

(Source: Vital Factor Consulting Sdn Bhd)

Corporate Sustainability Report

(Cont'd)

SUSTAINABILITY OF OUR BUSINESS

OUR MOVING FORWARD PLANS

To sustain and grow our business, we will focus on three areas: diversification into new industries, broadening and deepening our product and service offerings, and expanding our geographic markets. Two strategies we will employ in our growth plan are to undertake strategic acquisitions and investments, and to adopt an asset ownership business model.

Our growth plan and strategies will continue to leverage from our core competencies in the provision of O&M and EPCC services, and operating within the energy sector.



OUR GROWTH PLANS

INDUSTRY DIVERSIFICATIONS

While we will continue to focus on the energy industry which is our core competency, we will also invest in other industries with the aim of creating alternative revenue streams. This will provide us with additional growth opportunities and at the same time mitigate over reliance in any one industry.

In February 2017, through our minority acquisition in Konsortium Amanie JV Sdn Bhd (Konsortium Amanie), we obtained an EPCC contract to design and build a 120 million litre per day (MLD) and a 28 MLD water treatment plant as part of the Kuala Terengganu Utara Water Supply Scheme for the State Government of Terengganu, Malaysia. This project provides us with an entry into a new utility sector using our core competency in EPCC. In addition to the revenue derived from undertaking the EPCC project which amounted to RM289.7 million, we will have recurrent earnings from our minority interest in Konsortium Amanie.

Corporate Sustainability Report

(Cont'd)

MARKETS EXPANSION

USING OUR EXISTING MARKETS IN THE MIDDLE EAST TO EXPLORE OPPORTUNITIES IN THE AFRICAN CONTINENT



We will adopt a two-prong approach in our market expansion growth plan. The first prong is to enlarge our business in existing markets while the second prong is to venture into new geographic markets. In venturing into new geographic markets, we will grow from our existing markets to nearby countries or region.

In this respect, our revenue from Saudi Arabia grew from RM16.0 million for FYE 2015 to RM164.7 million for FPE 2016, representing close to 1,000% growth. Similarly, our revenue from Bahrain grew from RM5.6 million for FYE 2015 to RM146.7 million in FPE 2016, representing approximately 2,500% growth within the financial period from 25 May 2016 to 31 December 2016.

Expanding into new foreign markets is in line with our vision to be a global company. In FPE 2016, Middle East was our major contributor at RM760.9 million or 54.0% of our total revenue. From this existing geographic market base, we will continue to intensify our business growth efforts in the Middle East. In addition, we will explore expansion to nearby regions for example the African continent. The African continent is also rich in resources such as oil and gas.

Corporate Sustainability Report

(Cont'd)

BROADENING AND DEEPENING OUR PRODUCTS AND SERVICES

Our core competencies are in O&M and EPCC. Within O&M, we provide MRO of rotating equipment, and IRM of static equipment and structures. Deepening our products and services includes moving into specialised areas that we are currently not doing within our core competencies. Examples include undertaking MRO of hot section of gas turbines, and IRM of rotor blades of turbines. These services require specialised skills, knowledge and technologies, as well as requiring special test equipment and facilities.

Deepening our products and services may include fabricating critical and high value parts to complement our MRO and IRM services. This will require acquisition of the expertise as well as investment in machinery and equipment to undertake such tasks.

Broadening our products and services focuses on using our existing resources to venture into new areas, especially in different industries. One example is to undertake MRO of large diesel engines for the marine industry. Large ships and vessels require rotating equipment for propulsion and power generation. Large ships could include container and bulk cargo ships, oil and gas carries, and passenger cruise ships. Large vessels could include off-shore supply vessels to service the oil and gas industry, and patrol boats for border security as well as marine police.

As such, we have started with our service centre in Ras Al Khaimah Port in the United Arab Emirates. Among others, we aim to provide MRO services of diesel engines used for propulsion and power generation when vessels berth at the port.

VIEW OF OUR SERVICE CENTRE IN RAS AL KHAIMAH PORT IN THE UNITED ARAB EMIRATES



Vessels berth within 100 metres from our service centre. Top: Drillrig ship in front of our service centre. Our service centre is one of the grey rectangular building. Bottom left: Workover/drilling ship; Bottom-right: Offshore supply vessels

Corporate Sustainability Report

(Cont'd)

OUR STRATEGIES TO SUPPORT GROWTH

STRATEGIC INVESTMENT AND ACQUISITION

Our growth plans will incorporate organic growth using our internal human capital resources. However, we will also adopt a faster growth trajectory through strategic investments and acquisitions. Target investments and acquisitions would include those that can provide us with diversification into new or complementary industries, facilitate expansion of our geographic markets, broaden and deepen our products and services, as well as add value to our business.

In this respect, we have recently acquired 40% equity interest in Konsortium Amanie that enables us to venture into the water treatment sector, and value add to our business by providing EPCC contract and recurrent revenue stream.

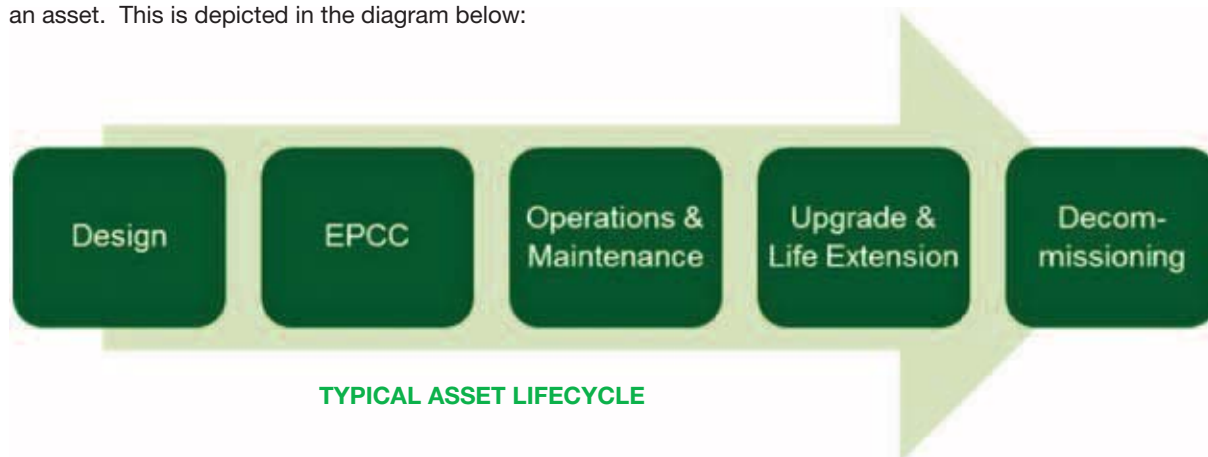
ASSET OWNERSHIP BUSINESS MODEL

We have recently adopted an asset ownership model as one of the strategies to grow and sustain our business. We aim to utilise our existing competencies in O&M and EPCC to develop, operate and maintain assets. One example is our current CNG Plant in Muaro Jambi, Sumatra, Indonesia and small gas power plant in Ambon Island, Indonesia, where we developed, own, operate and maintain the assets. Our asset ownership business model represents another business growth path and it also provides our business with recurrent revenue streams.

TOTAL ENGINEERING SOLUTIONS PROVIDER

Our business activities are focused on assets. The types of assets that we deal with are mainly industrial plants and facilities, as well as the multitude of machinery and equipment that are used for manufacturing or processing products.

Our growth plan to broaden and deepen our portfolio of products and services is mapped against the lifecycle of an asset. This is depicted in the diagram below:



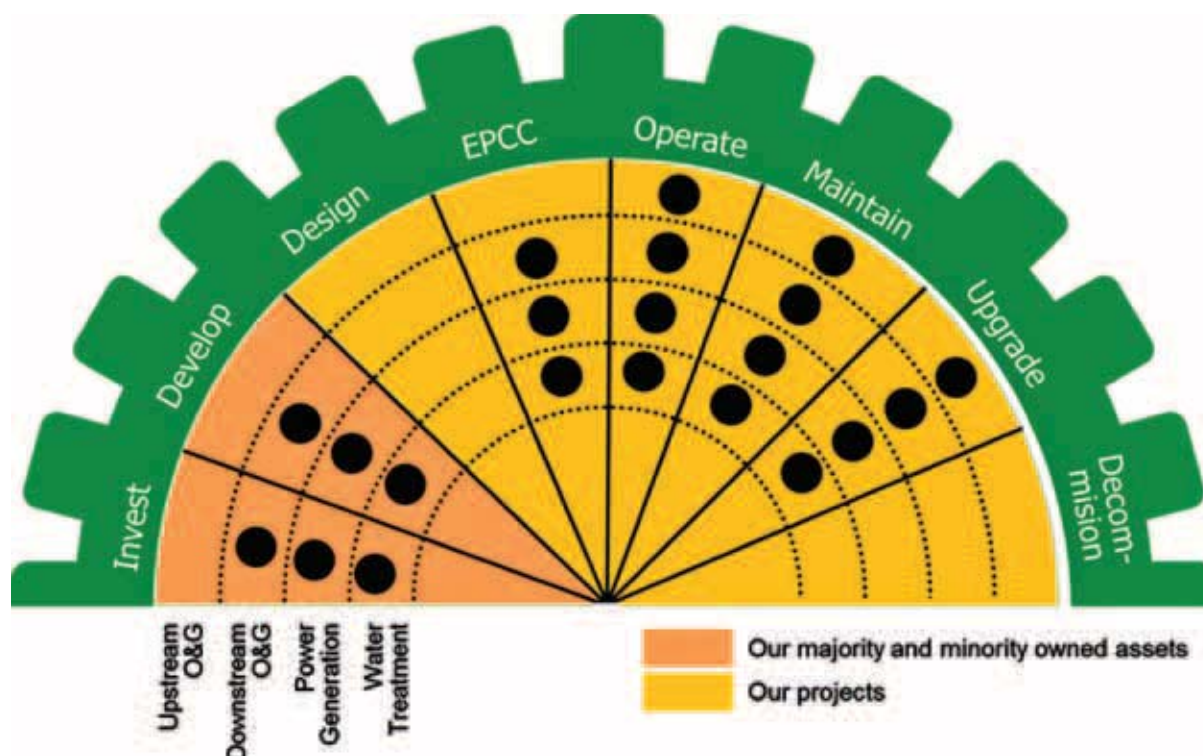
An asset starts with the design phase, after which it is built. It is then brought into operations which will require regular maintenance for optimum performance. Over a period of time, the asset needs to be upgraded or remanufactured to extend its useful life. Eventually the asset becomes uneconomical to operate or is obsolete, in which case it will need to be decommissioned.

In line with our intention to provide products and services across the lifecycle of an asset, we pursued a complementary business growth strategy in asset ownership. Our asset ownership business model is ideal as it enables us to complete the typical asset lifecycle, where we will own and develop the asset, operate, maintain and at a much later stage, upgrade and if need be, decommission the asset. To this end, we have successfully positioned ourselves in various phases of asset ownership and lifecycle as depicted in the diagram below.

Corporate Sustainability Report

(Cont'd)

OUR POSITION WITHIN THE ASSET OWNERSHIP AND LIFECYCLE BUSINESS MODEL



CREATING ECONOMIC VALUE

OUR CONTRIBUTION TO ECONOMIES AND BEYOND

We are proud of our contribution to the economies of the countries which are home to our operations. The scale of our operations enables us to make significant and long-term economic contribution:

- Direct economic contribution of our business;
- Taxes to governments in the various countries where we operate.

Our business operations create jobs, provide infrastructure and stimulate production and consumption of goods and services. This is achieved through our supply chain where we purchase goods and services to operate our business. Similarly, we are part of the value chain where our products and services are, in turn used to create value for our customers. In combination, our supply chain and value added chain create multiplier effects where wealth moves from one entity to the next, thus benefitting a wide circle of the commercial and consumer community.

The larger our revenue base, the higher the quantum of benefits to the various economies and communities in the countries where we operate.

Corporate

Sustainability Report

(Cont'd)

OUR ECONOMIC CONTRIBUTION (FPE 2016)



ECONOMIC VALUE DISTRIBUTION

	FPE 2016 RM'000
Economic value generated	
Revenue and other income	1,410,834
Economic value distributed	
Operating costs ¹	1,154,223
Wages and benefits to employees ²	34,919
Payments to providers of capital ³	19,790
Payments to government ⁴	15,164
Economic value retained	186,738
Aggregated economic contribution	1,224,096

1 Operating costs are related to expenses recognised in the financial statements. This includes expenditure paid to suppliers, contractors, and professional fees for provision of technical consultancy and related fees, and exclude employee/personnel expenses such as wages and benefit, payments to governments, depreciation and taxes.

2 Wages and benefits to employees include wages and salaries of personnel directly related to contracts/projects, and technical personnel, as well as full time employees from various departments including managerial and professional, clerical, administrative, sales and marketing and others.

3 Interest payments comprised interest expense on borrowings for project financing and finance acquisition of companies.

4 Payments to government refer to payments of corporate income tax.

Corporate Sustainability Report

(Cont'd)

OUR FOREIGN EARNINGS

We serve customers across a number of regions:

- Asia (Malaysia, Indonesia, Turkmenistan and India)
- Middle East (Qatar, Kingdom of Saudi Arabia, Bahrain, United Arab Emirates, Kuwait and Oman);
- Europe (United Kingdom).

Our earnings derived from foreign markets contribute to the economic value of Malaysia. Our foreign earnings contribute to the balance of payment as well as create wealth for the nation and strengthen our currency as our foreign profits are repatriated back to Malaysia.

RM901.8 million
OUR FOREIGN EARNINGS IN FPE 2016



Corporate Sustainability Report

(Cont'd)

OUR VENDOR DEVELOPMENT PROGRAMME

On 22 December 2015, we were appointed by Malaysia's Ministry of International Trade and Industry (MITI) to be an anchor company for a vendor development programme (VDP). Our role as anchor company is to assist in nurturing and developing Malaysian Bumiputera entrepreneurs relating to MRO of rotating equipment and IRM of static equipment and structures.

In 2016, we launched the Bumiputera VDP programme. As at March 2017, there were seven vendors under our VDP. We are committed to operate our VDP to support small and medium enterprises (SME) in their pursuit of excellence and contribute to the economic growth of the Malaysian industrial community.

DEVELOPING SMALL AND MEDIUM ENTERPRISES

- Provide opportunities for local SME to participate in the engineering solutions sector including MRO of rotating equipment and IRM of static equipment and structures.
- Nurture SMEs to be globally competitive to secure foreign earnings to benefit the local economy.
- Create business transactions to contribute directly to economic value generation to bring wealth to the local economy.
- Fiscal contribution from property and corporate taxes to government revenue which provides support to public infrastructure and services development for the local communities.

CREATING AND SUSTAINING JOBS

- Building SME capabilities by developing human capital covering entrepreneurship, technological and engineering expertise, and product development capabilities within the engineering sector for the oil and gas, and power generation industries.
- Initiate and develop training programmes to encourage on-the-job training and skills development programme with targeted efforts to meet international standards.
- Encourage people development by creating linkages with global suppliers for technology, skills and knowledge transfer.

OUR SUPPLY CHAIN

Our relationship with suppliers is critical to our business operations and sustainability. In the respective countries where we operate, we seek to work with suppliers that share our value systems and comply with our suppliers code of conduct including, among others, corporate governance, fair and legal practices, health and safety, transparency, labour, human rights and environmental compliance. Through engagements with suppliers and assessment of our supply chain, we will continue to improve our performance and create shared value which will be mutually beneficial.

In 2016, we purchased goods and services from more than 717 suppliers. These are mainly for the purchase of parts, consumables, tools, equipment and services.

We will continue to support local suppliers, where possible, in the respective countries where we operate. In Malaysia, as we are charged with the role of an anchor company for VDP in relation to MRO of rotating equipment and IRM of static equipment and structures, we will continue to give priority and actively support Malaysian-owned companies.

717

Our active suppliers

Corporate Sustainability Report

(Cont'd)

BUSINESS ETHICS AND GOVERNANCE

BUSINESS ETHICS

We are proud of the reputation that we are fair in our business dealings. This is enshrined in our code of business which we promote when conducting our business.

Our code of business ethics is integral to our operations especially when we deal with external parties. We are vigilant in ensuring that all employees comply with our code of business ethics. Compliance to these principles is also expected from our business partners, suppliers, contractors, consultants, representatives as well as other intermediaries.



CODE OF BUSINESS CONDUCT

In this respect, we have incorporated our business ethics, policies, core values and principles into our Code of Business Conduct. This sets the standard on business practices, behaviour and conduct that we expect from our employees in their daily activities and dealings internally and with external parties. All new employees will be issued with our Code of Business Conduct as part of their orientation process.

ANTI-CORRUPTION: We firmly believe that corruption in any form diminishes the quality of business decisions and actions. It leads to non-optimal results that threaten the sustainability of our business. We are committed to providing a working environment that is free from the influence of corruption and this applies to our dealings with all stakeholders.

WHISTLEBLOWER POLICY

We will institute a whistleblower policy which encourages reporting of misconduct or wrongful acts among our employees. We will also provide protection to whistleblowers. This is part of our overall system of conducting our business ethically and corruption free.

MANAGING GRIEVANCES

We continually promote a culture of communication and transparency in our work place. This is designed to provide a platform for our staff to raise any issues, grievances or concerns regarding the way we operate, as well as how staff interacts internally. We encourage our people to take their concerns directly with line managers, supervisors, human resource manager or if the issues are not resolved satisfactory and expediently, to bring forward those issues or concerns to senior management.

We will institute a system for handling internal and external complains and grievances. This will apply to internal staff as well as external stakeholders including business partners, customers, suppliers and contractors. All complains and grievances will be formally acknowledged, investigated and documented with recommended remedial actions. All these will be conducted on a confidential basis. To maintain confidentiality we will provide an online facility to receive as well as create an audit trail of follow-up actions and final resolution or decision.

Corporate Sustainability Report

(Cont'd)

GOVERNANCE OF THE CODE

In order to promote an ethical work environment, we have a Compliance Officer in our head office in Malaysia to monitor work environment and business practices. The Compliance Officer reports to the Ethics Advisory Committee comprising General Managers from various departments including Human Resources, Finance, Corporate Services, Corporate Governance and Legal Affairs. The responsibility of the Committee is to provide advice, guidance and resolve any disputes relating to the Code of Business Conduct. Any serious issues arising would be reported to the Audit Committee.

ENVIRONMENTAL CONSCIOUSNESS

OUR APPROACH

As we create wealth for shareholders, we interact with the environment. We are keenly aware that the environment is a shared resource and affects every living thing on earth. What we choose to do regarding the environment affects the sustainability of our business. This is especially so as we operate within the oil and gas, and power generation industry. Our ability to preserve the sanctity of the environment and possibly reverse some of the ravages on the environment will hold us in high esteem by our customers as well as the local community. Generating goodwill will contribute a long way to the sustainability of our business.

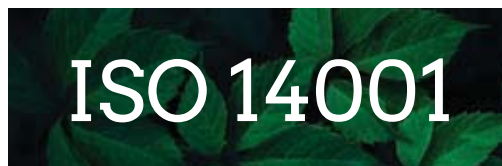
We are also aware that we are part of the value chain in extracting, processing and using non-renewable resources in the form of fossil fuels like oil and gas. While the world today continues to be heavily dependent on fossil fuels, we will actively pursue alternative renewable and clean energy. As a consumer of environmental resources like energy and water, we will do our part to reduce usage to conserve scarce resources, and minimise our carbon footprint.

THE ENVIRONMENT SERVES AS A FUNDAMENTAL BUILDING BLOCK FOR OUR SUSTAINABLE GROWTH IN GENERATING ECONOMIC VALUE.

We are committed to address challenges and opportunities in our natural surroundings where we conduct our business. This will enable us to contribute to environmental value and minimise damage to the environment.

We are an ISO 14001 certified organisation. We strive to maintain and adhere to sound environmental management system with the following approaches:

- Participate in developing renewable energy to create environment sustainability and economic value.
- Implement environmental management programmes incorporating creating awareness and consciousness of the importance of preserving the environment.
- Management review and monitoring to meet environmental aspects in minimising usage and consumption of energy and water to reduce impact on the environment.
- Formulate energy efficiency initiatives in our operational facilities to maintain energy efficiency level.



Our international environmental standards are detailed in our health, safety and environment (HSE) control framework. Our projects and operational facilities comply with local environmental regulations and internal standards.

We are an energy service group that is keen in investing in renewable sources of energy to create an environment that is sustainable.

Corporate Sustainability Report (Cont'd)

With our international presence, our capabilities to streamline work processes with clearly defined responsibilities will contribute to greater efficiency and bottom line by facilitating environmental initiatives and improvements. In 2016, we received “The Green Era Award for Sustainability” in France from the Association Otherways Management and Consulting, in recognition of sustainable practices and outstanding achievements in environmental protection.

ENERGY EFFICIENCY AND MANAGEMENT



We plan to adopt an energy management system to facilitate our business operations to minimise their energy usage with the aim of reducing greenhouse gas emission.

Our energy usage for FPE 2016 in our operational facilities in Malaysia is as follows:

ELECTRICITY CONSUMPTION

619 MWH of electricity was consumed from our operational facilities in Malaysia for FPE 2016.

Note: Data obtained and computed from our head office in Shah Alam, and operational facilities in Malaysia.

WATER CONSERVATION

We place emphasis in preserving valuable resources and strive to manage our water usage responsibly. Through the introduction of water initiatives, control and monitoring programme, we intend to educate our employees in reducing wastage of water and streamline the approach in meeting our internal environmental standards.

Our recent investment and EPCC of a water treatment plant project in Terengganu, Malaysia will improve our appreciation of the value and scarcity of clean water. We recognise that we need to do more in terms of recycling, reusing and reducing the use of scarce resources in other parts of our business, as well as internally among our people.

WATER CONSUMPTION

728 M³ of water was consumed from our operational facilities in Malaysia for FPE 2016.

Note: Data obtained and computed from our head office in Shah Alam, and operational facilities in Malaysia.

Corporate Sustainability Report

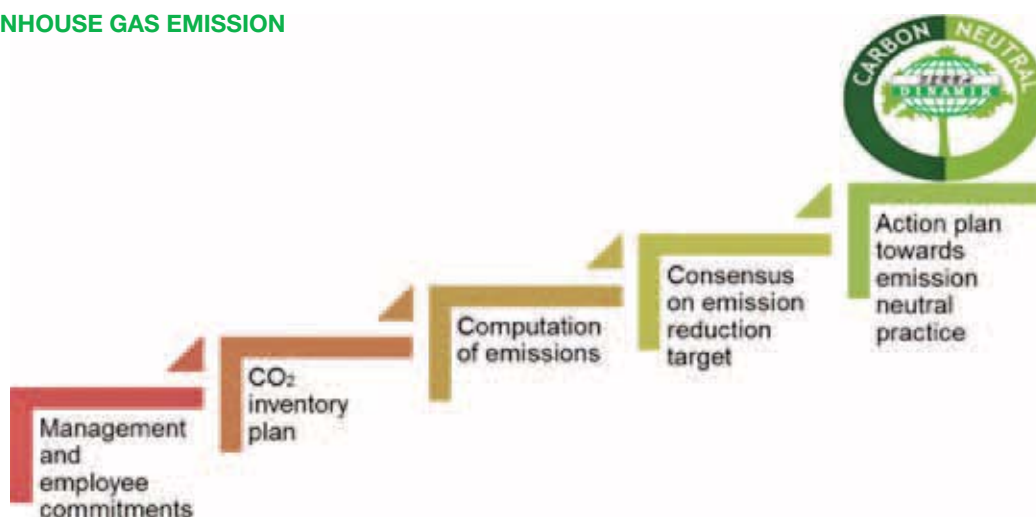
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WASTE MANAGEMENT

As a service provider, we generate an immaterial amount of scheduled waste including spent lubricating oils for our machines and equipment, empty paint containers, and used rags from our cleaning and maintenance operations at our service centres. The disposal of this type of waste is handled by licenced waste management companies.

In addition, we continue to place emphasis on the 3R concept to reduce, reuse and recycle with the aim of minimising waste generation. To create awareness and educate our staff, we introduce waste management training and also engage our employees through emails on reduction of paper consumption, reuse of paper and stationery, and initiate waste sorting and disposal to promote recycling. We currently do not have any past data on waste management. Moving forward, we will outline a system for the collection of data and monitoring on waste management in our operations.

GREENHOUSE GAS EMISSION



Our carbon management plan entails carbon neutral practices to minimise the impact on the environment.

CARBON DIOXIDE EMISSIONS FROM VEHICLES

We adopt the emission factor method that considers carbon content of fuel used in our company vehicles to calculate our contribution to greenhouse gas (GHG) emission. This is computed based on default value of emission factor published by the Intergovernmental Panel on Climate Change (IPCC) Guidelines for National GHG Inventories. The fuel consumption is based on total fuel purchases for motor vehicles owned by our Group.

DIRECT GHG EMISSIONS SCOPE 1

478 tonnes of CO₂ emissions from consumption of petrol and diesel in Malaysia (FPE 2016).

CARBON DIOXIDE EMISSIONS FROM POWER USAGE

The computation of GHG emissions analysis above is derived from the total consumption of electricity using the published national emission factors for 2014.

INDIRECT GHG EMISSIONS SCOPE 2

398 tonnes of CO₂ emissions from electricity usage of our operational facilities in Malaysia (FPE 2016).

Corporate Sustainability Report

(Cont'd)

OUR WORKFORCE AND SOCIETY

DEVELOPING OUR WORKFORCE

We placed significant emphasis on improved work performance as part of our business sustainability. As such, we encourage our employees to develop their competencies and qualifications to help them to improve their job performance. In 2016, we invested approximately RM207,000 in both in-house and external technical training as part of our continuing development in our most valued resource - our people. This is equivalent to RM477 per employee.

RM207,000¹

Our expenditure in health and safety, and technical training for employees in Malaysia.

434

Our technical workforce comprising engineers, technical and service personnel, as well as quality control/HSE personnel in Malaysia.

¹ Total expenditure was based on 12-month financial year ended 2016.

	2016 ¹
Occupational health and safety training	
Number of participants	125
Expenditure ² (%)	31
Technical training	
Number of participants ²	68
Expenditure ² (%)	27
Other non-technical training	
Number of participants ²	113
Expenditure ² (%)	42

¹ Based on 12-month financial year ended 2016;

² Percentage is calculated based on expenditure of the training fields over total training expenditure in Malaysia.

HUMAN RIGHTS

OUR APPROACH TO HUMAN RIGHTS

We are committed to the preservation and protection of human rights in our supply chain.

As a global engineering solutions provider, we do face issues related to working conditions associated in our foreign operations. Part of our business operations includes utilising contractors and their workers in building and construction related works in developing countries. We do recognise that the safeguarding of human rights extends to our suppliers and part of our corporate social responsibility is to conduct an annual review of our supply chain including contractors and suppliers to assess their safety procedures and the working conditions.

Corporate Sustainability Report

(Cont'd)

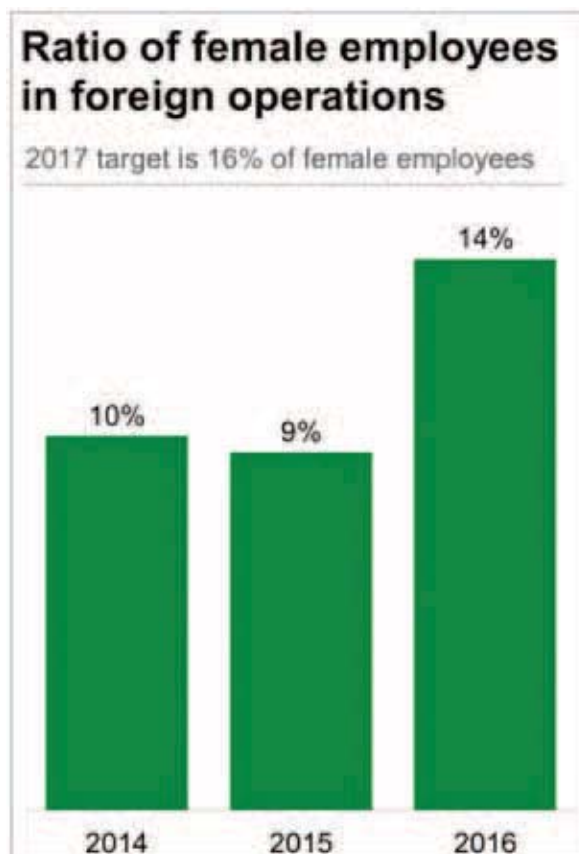
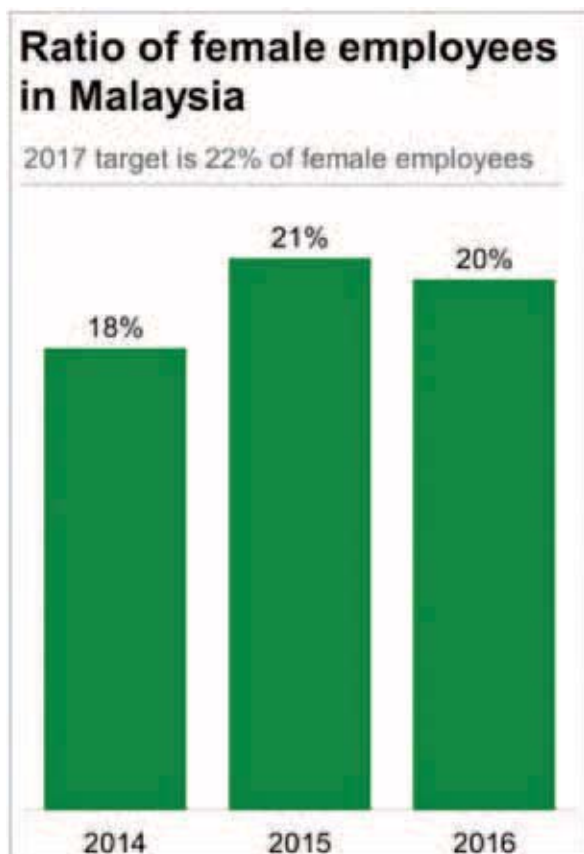
GENDER EQUALITY

We will continue to support gender equality by providing equal opportunity without discrimination.

Although the proportion of women in our operations in Malaysia has increased from approximately 18% in 2014 to approximately 20% in 2016, we do recognise that more work needs to be done to create gender equality in our operations. Of the 20% of women employees, 49% were in clerical and administrative positions, followed by 34% in technical, supervisory, and sales and marketing positions while the remaining 17% were in managerial and professional positions. As such, we do have a gender imbalance in technical and supervisory roles, as well as in managerial and professional departments.

Aside from our Malaysia operations, we face more of a challenging environment in promoting gender diversity in our foreign operations where female workers accounted for very low proportion within our Group. This is particularly prevalent in our Middle East operations.

We are stepping up our actions to improve the imbalance by increasing the employment of women across all areas of the organisation. To this end, we have introduced some internal initiatives to attract and retain our pool of talented women in our Group. Some of these initiatives include developing and accelerating the career of female employees who can demonstrate leadership position in their areas of operation. In addition, we recognise that to seek an equal balance of men and women in our Group is to build the pipeline of potential female employees. Part of our initiatives for 2017 is to give seminars and talks targeted at engineering students in tertiary educational institutions as well as vocational students with the intention to attract potential female employees to join our Group. Our target is to increase the proportion of women by 2% each year of our five year milestone.



Corporate Sustainability Report

(Cont'd)

	2014	2015	2016
Gender Diversity in Malaysia			
Male employees (No.)	316	395	478
Female employees (No.)	68	106	122
Total employees in Malaysia (No.)	384	501	600
Proportion of female employees (%)	18	21	20
Gender Diversity in Foreign Operations			
Male employees (No.)	180	257	206
Female employees (No.)	21	30	33
Total employees in foreign operations (No.)	201	287	239
Proportion of female employees (%)	10	10	13
Gender Composition - Board of Directors			
Male Directors (No.)	3	3	6
Female Directors (No.)	-	-	1
Total board members (No.)	3	3	7
Proportion of female directors (%)	0	0	14
Age group of employees in Malaysia			
< 30 years old (No.)	211	257	296
30 – 40 years of age (No.)	91	126	154
41 – 50 years of age (No.)	60	83	101
>50 years of age (No.)	22	35	49
Age group of employees in foreign operations			
< 30 years old (No.)	50	65	75
30 – 40 years of age (No.)	80	123	52
41 – 50 years of age (No.)	39	72	85
>50 years of age (No.)	15	19	19

Corporate Sustainability Report

(Cont'd)

GENDER EQUALITY

The table below summarises our workforce over the past three years.

	2014	2015	2016
By Location	585	788	839
Malaysia	384	501	600
Indonesia	183	265	208
Bahrain	9	12	21
United Kingdom	9	6	6
Brunei	-	4	4
By Job Function			
Managerial and professional	67	86	99
Technical and supervisory			
Engineers	44	47	52
Technical and service personnel	370	500	523
Quality control / HSE personnel	23	33	36
Clerical and administrative	75	106	113
Sales and marketing	6	8	8
Others	0	8	8
Employee Turnover Rate			
Malaysia Operations (%)	23	19	15
Foreign Operations (%)	1	1	1
Group (%)	16	11	12

BENEFITS AND REMUNERATION

We recognise that we have to offer competitive benefits and remuneration to attract new talent, retain as well as reward the contribution of our people. In this respect, all our employees are offered a competitive base salary, short and medium term incentive plans, and retirement scheme.

Our compensation framework is designed to motivate and retain employees.

RM34.9 MILLION

Total compensations and benefits to employees for FPE 2016.

839 Our total workforce including permanent and contractual employees.

Corporate Sustainability Report (Cont'd)

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety is an integral part of our business operations and our customers expects the highest safety standards. As such, we have inculcated a culture that focuses on health and safety. Among others, all new employees and contractors working at our service centres and customers' sites have to undergo formalised internal safety briefing. Visitors to our service centres are also provide with safety procedures. In addition, safety also extends to attire and footwear. All workers at our service centres are required to wear company issued work clothes, footwear, goggles and where necessary ear plugs. These are specially designed to offer protection for the wearer.

"OCCUPATIONAL HEALTH AND SAFETY IS A KEY CONSIDERATION IN OUR BUSINESS OPERATIONS. PETRONAS HSE AND OTHER CUSTOMER AWARDS ARE OUR MOST PRIZED INDUSTRY ACCOLADE".

10.8 million (Malaysia)
13.7 million (Foreign Countries)
CUMULATIVE PERSON-HOURS WITHOUT LOSS TIME INJURY



Corporate Sustainability Report

(Cont'd)

HSE Awards from PETRONAS group of companies 2008 - 2015

PETRONAS Methanol Labuan 2008	HSE award for maintenance of rotating equipment for 13th August to 3rd September shutdown.
PETRONAS Group 2009	HSE and sustainability awards for minor contractor safety category for inculcating quality and HSE into every work process.
PETRONAS Penapisan (Melaka) 2010	HSE and sustainability development awards for enhancement of HSE and quality during hydrogen production unit 1 revamp project. Certificate of appreciation for completion of cogeneration plant (heat recovery steam generator) certificate of fitness renewal with 15,000 person-hours without lost time injury and delay.
PETRONAS Chemicals Ammonia 2015	Appreciation award of excellent performance in unplanned shutdown in terms of schedule, HSE and quality. Contractor outstanding behaviour and recognition award for outstanding performance in HSE

Other HSE Awards 2007 - 2015

BP Chemicals 2007	Appreciation for services offered during plant shutdown where work was completed safely without any minor or major incidents.
Ethylene Malaysia and Polyethylene Malaysia 2008	Award for achievement of 963,000 safe person-hours of work in 4th turnaround 2008 and 5.35 million contractor's safe person-hours without lost time injury since 2004.
Malaysia Society for Occupational Safety And Health 2010	SME OSH award with three star rating.
METIX Malaysia 2015	Award for achievement of 13,028 safe person-hours without lost time injury towards the completion of the Sakura Ferroalloy project which has reached a total of 2 million safe person-hours without lost time injury.

2015 2016

Health and safety

Loss Time Injury – Group ¹	-	-
Total person-hours completed - Malaysia operations ² (No. of hours)	1,170,137	1,467,702
Total person-hours completed - Foreign operations ² (No. of hours)	2,003,915	2,790,991

¹ Data includes both Malaysia and foreign operations. No fatalities were recorded in loss time injury.

² Refer to the total person-hours completed for the respective year of operations.

Corporate Sustainability Report

(Cont'd)

OUR CORPORATE SOCIAL RESPONSIBILITIES

Being a socially responsible company, we believe in giving back to the community and part of our contribution is in supporting institutions such as orphanages and non-profit government bodies.

In total, we have disbursed RM197,000.00 to orphanages and non-profit government bodies between 2014 and 2016.

CHARITABLE ACTIVITIES AND DONATIONS

	2015	2016
Supporting the Underprivileged - Orphanages		
Amount Disbursed to Teratak Nur Barakah (RM)	21,000	36,000
Amount Disbursed to Rumah Amal Al Firdaus (RM)	21,000	36,000
Amount Disbursed to Rumah Perlindungan Nur Hati (RM)	21,000	36,000
Amount Disbursed to Lembaga Kebajikan Anak-Anak Yatim Sarawak (PERYATIM) (RM)		10,000
Supporting Non-Profit Government bodies		
Amount Disbursed to Tabung Kebajikan WargaKerja BDA (RM)		15,000
Amount Disbursed to Pertubuhan Kebajikan Islam Malaysia ("PERKIM") (RM)		1,000
TOTAL MONETARY CONTRIBUTIONS	63,000	134,000

YOUTH EMPOWERMENT

We are a strong advocator of knowledge, training and education which we believe is the platform to empower and develop the younger generation to become contributing members of society. In 2017, we will be implementing our inaugural Serba Dinamik's Youth Empowerment Programme which involves providing opportunities to selected individuals interested in pursuing careers in rotating machinery and equipment. We will be funding their technical training under the vocational technical courses from City & Guilds where we provide two courses, Competent Rotating Machinery Technician programme and Advanced Diploma in O&G operations. We will monitor their progress and upon the completion of their courses, we will assure them of employment with Serba Group. We believe these initiatives would help to create employment opportunities and invest in building local knowledge and technical skills of the younger generation in the local communities.

COMMUNITY PROGRAMMES

We recognise that investing in the community goes beyond the measurement of dollars, hence part of "Building a Stronger Relationship with the Community" programme is to contribute our efforts, time and involvement in activities that matters most to the community. This includes visitations to orphanages and old folks homes where we can bring communities of different races together by participating in unity in breaking fast.

Building stronger relationships with the community

Breaking fast at Kampung Jepak orphanage, Bintulu, Sarawak

Breaking fast at Islamic Orphans Welfare Association (PERKAYA) in Terengganu

Breaking fast at children's ward in Hospital Nyabau, Bintulu, Sarawak

Visitation to old folks home in Bandar Al Muktafi Billah Shah Dungun, Paka, Malaysia

Visitation to old folks home in Kuala Kubu Bharu, Shah Alam, Selangor

CORPORATE GOVERNANCE STATEMENT

1. INTRODUCTION

This Statement on Corporate Governance has been established by the Board of Directors ("Board") of Serba Dinamik Holdings Berhad ("Group"), and is intended, in conjunction with the Malaysian Code on Corporate Governance 2012 ("MCCG 2012") and all applicable laws, to be a flexible framework within which the Board may conduct its business. The MCCG 2012 is specifically targeted for listed companies on Bursa Malaysia, and listed companies with Financial Year Ended ("FYE") 2012 onwards will be required to report the extent of the adoption of the principles and recommendations of MCCG 2012 in their annual reports.

The Terms of Reference ("TOR") of Board Committees are in line with the Main Market Listing Requirements ("MMLR") of Bursa Malaysia as well as various other enhancements in the respective Board Committees responsibilities. The Board of the Group presents this statement to provide an insight into the Corporate Governance practices of the Group under the leadership of the Board. The Board believes that the current Board composition provides the appropriate balance in terms of skills, knowledge and experience to promote the interests of all shareholders and to govern the Group effectively.

The Board is also committed in achieving and sustaining high standards of corporate governance. In regards to the above, the Board will use its best endeavor to comply with the MCCG 2012 and will provide a statement on the extent of compliance with the MCCG 2012 in our first annual report as a listed entity for the FYE2016.

2. BOARD OF DIRECTORS

a) Board Size and Composition

The Board currently comprises 7 Members. The Board size is conducive to decision making and is appropriate given the size of the Group's operations. The composition of the Board remains adequate to provide for a diversity of views, facilitate effective decision making, and appropriate balance of executive, independent and non-independent directors.

The 7 Members of the Board are persons of high calibre and integrity, and they have a sound understanding of the Group's business as well as deep industry expertise. They possess the skills, knowledge, experience and competencies to address key risks and major issues relating to the Group's business and its policies and strategies. The Board are comprises of 2 Executive Directors and 5 Non-Executive Directors.

Please find details of the Directors in Director's Profile in this Annual Report.

b) Board Balance and Independence

The Board comprises 2 Executive Directors and a strong presence of 5 Non-Executive Directors, whereby more than half of the Board Members are Independent Non-Executive Directors. The presence of a majority of Independent Non-Executive Directors provides effective check and balance in the functioning of the Board.

The 4 Independent Non-Executive Directors are not employees and there are no relationships or circumstances which are likely to affect, or could appear to affect, the Independent Non-Executive Directors' judgement. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinize the performance of Management in meeting approved goals and objectives, and monitor the risk profile of the Group's business and the reporting of quarterly business performances.

CORPORATE GOVERNANCE STATEMENT

(Cont'd)

2. BOARD OF DIRECTORS (CONT'D)

c) Board Duties and Responsibilities

The principal responsibilities of the Board are as follows:

- **Reviewing and adopting a strategic plan**

The role of the Board is to review, challenge and approved management's proposal on a strategic plan of the Group, which include overall corporate strategy, marketing plan, human resources plan, information technology plan, financial plan, budget, regulations plan and risk management plan.

- **Overseeing the conduct of the business**

A basis function of the Board is to oversee conduct of the business and performance of management in order to determine whether the business is being properly managed.

- **Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures**

The Board must understand the principal risks of all aspects of the Group's business and ensure that there are systems in place which effectively monitor and manage these risks.

- **Succession Planning**

The Board should ensure that all candidates appointed to senior management positions are sufficient caliber and shall be responsible on appointing, training, fixing the remuneration of, and where appropriate, replacing key management;

- **Overseeing the development & implementation of a shareholder communications policy**

The responsibility of the Board is to ensure that the Group has in place a policy to enable effective communication with its shareholders and other stakeholders.

- **Reviewing adequacy and integrity of the management information and internal controls system**

The Board has to ensure that there is a sound framework of reporting on internal controls and regulatory compliance.

d) Board Charter

The Board Charter sets out the roles, responsibilities and functions of the Board in accordance with the standards, practices and principles of good corporate governance stated in the policy documents and guidelines issued by MCCG 2012, MMLR and relevant regulatory authorities. The Board Charter is available on its corporate website.

CORPORATE GOVERNANCE STATEMENT

(Cont'd)

2. BOARD OF DIRECTORS (CONT'D)

e) Board Meetings and Access to Information

Board meetings for the ensuing financial year are scheduled in advance before the end of the current financial year so that the Directors are able to plan ahead and ensure their full attendance at Board meetings. The Board holds regular meetings on a quarterly basis.

Special Board meetings may be convened as and when necessary to consider urgent proposals or matters that require the Board's expeditious review or consideration. As part of the integrated risk management initiatives, the Board is informed of the decisions and salient issues deliberated by the Audit & Risk Committee ("ARC"), Nomination & Remuneration Committee ("NRC") and Investment Committee ("IC") through minutes of these committees. The Board Members deliberate, and in the process, assess the viability of business propositions and corporate proposals, and the principal risks that may have significant impact on the Group's business or on its financial position, and the mitigating factors.

To facilitate productive and meaningful deliberations, the proceedings of the Board meetings are conducted in accordance with a structured agenda. The agenda together with comprehensive management reports and proposal papers are furnished to the Directors at least 7 days before the Board meeting. This is to allow time for the Directors to review the Board papers and to facilitate full discussion at the Board meeting. There is a process in place for Non-Executive Directors to seek clarifications or obtain details concerning the Board agenda papers from the Management or the Company Secretary or if they deem necessary to take independent professional advice at the Company's expenses.

Confidential papers or urgent proposals are presented and tabled at the Board meetings under supplemental agenda. The Board meeting papers are prepared and presented in a concise and comprehensive manner so that the Directors have a proper and relevant depiction of the issues at hand, in order that the Board deliberations and decision-making are performed systematically and in a well-informed manner. The Board meeting papers contain information in a form and of a quality appropriate to enable the Board to discharge its duties effectively.

The minutes of Board meetings are circulated to all Directors for their perusal prior to confirmation of the minutes to be done at the commencement of the following Board meeting. The Directors may request for clarification or raise comments before the minutes are tabled for confirmation and upon receiving confirmation from all the Members at the Board meetings, the minutes will be signed by the Chairman of the meeting as a correct record of the proceedings of the meeting. The Group Chief Financial Officer also attends Board meetings by invitation to update the Board on financial guidelines and to brief the Board on matters relating to the finance portfolio.

CORPORATE GOVERNANCE STATEMENT

(Cont'd)

2. BOARD OF DIRECTORS (CONT'D)

e) Board Meetings and Access to Information (Cont'd)

The Board is satisfied that each Director has committed sufficient time to the Group as evident from the Directors' record of attendance at Board meetings held in the financial period ended 31 December 2016, as reflected below:

Name of Director	Number of Board Meetings Attended
Dato' Mohamed Nor Abu Bakar <i>Chairman/ Independent Non-Executive Director</i>	4/4
Dato' Dr. Ir. Hj. Mohd Abdul Karim Abdullah <i>Non- Independent Executive Director/ Group Chief Executive Director</i>	4/4
Tuan Hj. Abdul Kadier Sahib <i>Non-Independent Non-Executive Director</i>	4/4
Dato' Awang Daud Awang Putera <i>Non-Independent Executive Director</i>	4/4
Sharifah Irina Syed Ahmad Radzi <i>Independent Non-Executive Director</i>	3/4
Tengku Dato' Seri Hasmuddin Tengku Othman <i>Independent Non-Executive Director</i>	4/4
Hasman Yusri Yusoff <i>Independent Non-Executive Director</i>	1/1

f) Company Secretary

The Directors have unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively. The Board is regularly updated and apprised by the Company Secretary who is experienced, competent and knowledgeable on new statutes and directives issued by the regulatory authorities. The Company Secretary gives clear and sound advice on the measures to be taken and requirements to be observed by the Company and the Directors arising from new statutes and guidelines issued by the regulatory authorities.

The Company Secretary briefs the Board on proposed contents and timing of material announcements to be made to Bursa Malaysia. The Company Secretary also serves notices to the Directors and Principal Officers on the closed periods for trading in Group's shares, in accordance with the black-out periods for dealing in the Company's securities pursuant to Chapter 14 of MMLR.

The Company Secretary attends all Board meetings and ensures that accurate and proper records of the proceedings and resolutions passed are maintained in the statutory records at the registered office of the Company. The Company Secretary also facilitates timely communication of decisions made and policies set by the Board at Board meetings, to the Senior Management for action. The Company Secretary works closely with the Management to ensure that there are timely and appropriate information flows within and to the Board and Board Committees, and between the Non-Executive Directors and Management. The appointment and removal of the Company Secretary must be approved by the Board.

CORPORATE GOVERNANCE STATEMENT

(Cont'd)

2. BOARD OF DIRECTORS (CONT'D)

g) Directors' Training

The Directors had kept up-to-date with market developments and related issues through Board discussion meetings with the Group Chief Executive Officers, Group Chief Financial Officer and other Senior Management Officers. Effective from FY2017 in respect to listing of the Group in Bursa Malaysia, the Company Secretary and the Management undertake the role as the coordinator to manage and coordinate the Directors' training requirements.

Directors may request that training programs on specific subjects be arranged in order to facilitate them to discharge their duties effectively. The Company Secretary of Board and its Sub-Committee regularly update and apprise the Directors on new statutes, policy documents and guidelines issued by the regulatory authorities, and the requirements to be observed by the Company and Directors thereupon. The NRC conducts annual review of training attended by the Directors during each financial year.

h) Directors' Fees & Benefits

The NRC recommends the level and structure of Directors' fees & benefits for services on the Board effective from FY2017. In making its recommendation, the NRC considers the responsibilities of the Directors.

3. COMMITTEES ESTABLISHED BY THE BOARD

The Board has established a number of Board Committees whose compositions and terms of reference are in accordance with the Corporate Governance and the MMLR, and consistent with the recommendations of the MCCG 2012. Common memberships in Board Committees such as the ARC, NRC and IC, facilitate a holistic overview of the risk and control functions under the oversight of these Committees. The functions and terms of reference of Board Committees and Management Executive Committee, as well as authority delegated by the Board to these Committees, are reviewed from time to time to ensure that they remain relevant and are up-to-date.

a) Audit & Risk Committee ("ARC")

Please refer to Audit & Risk Committee Report of this Annual Report.

b) Nomination and Remuneration Committee ("NRC")

The NRC comprises exclusively of Non-Executive Directors, the majority of whom are Independent Directors. The NRC is chaired by Tengku Dato' Seri Hasnuddin Tengku Othman, an Independent Non-Executive Director. The terms of reference of the NRC are as follows:

- To review the Board composition and recommend to the Board appointment of new Directors of the Group and Board Committees.
- To evaluate the effectiveness of the Board, Board Committees and contributions of each individual Director.
- To review the GCEO's, Executive Director's and Chief Level Officers' objectives and goals and the assessment of performance of these persons against those benchmarks.
- To review the performance evaluation of Chief Level Officers namely the Chief Operating Officer, Chief Corporate Services and Chief Financial Officer ("Chief Level Officers").
- To determine the level and composition of remuneration for the GCEO and Executive Directors (if any) so as to ensure that the Group attracts and retains the GCEO and Chief Level Officers of the appropriate caliber, experience and quality needed to run the Group successfully. The level and composition of the remuneration should be structured so as to link rewards with corporate and individual performance.
- To develop policies, practices and recommend proposals appropriate to facilitate the recruitment and retention of the GCEO, Executive Directors and Chief Level Officers.

CORPORATE GOVERNANCE STATEMENT

(Cont'd)

3. COMMITTEES ESTABLISHED BY THE BOARD (CONT'D)

b) Nomination and Remuneration Committee ("NRC") (Cont'd)

The Board has established an annual performance evaluation process to assess the performance and effectiveness of the Board and Board Committees, as well as the performance of each Director. The NRC also assesses the independence of Directors annually based on the criteria specified in the MMLR.

The NRC meets as and when required, and at least twice a year. The attendance of Members at the NRC meetings held in FPE 2016 is as reflected below:

Name of Director	Number of NRC Meetings Attended
Tengku Dato' Seri Hasmuddin Tengku Othman (Chairman) <i>Independent Non-Executive Director</i>	2/2
Hj. Abdul Kadier Sahib <i>Non-Independent Non-Executive Director</i>	2/2
Sharifah Irina Syed Ahmad Radzi <i>Independent Non-Executive Director</i>	2/2

c) Investment Committee ("IC")

The IC is made up exclusively of Executive Director and Non-Executive Directors and is chaired by Dato' Dr. Ir. Hj. Mohd Abdul Karim Abdullah, a Non-Independent Executive Director. The roles and responsibilities of the IC are as follows:

- To assist the Board of Directors in performing its duties and discharging its responsibilities in evaluating the Group's investment proposals which includes and is not limited to merger & acquisitions, new partnerships, divestments and large capital expenditure projects.
- To examine and where appropriate, approve award of contracts for supply of goods, works or services within limits authorised in the LOA.
- To review selection for the appointment of successful tenderers for both closed and open tender applications.
- To examine and where appropriate, authorise the variation of tender procedures for the tender committee.

The IC meets as and when required. The attendance of Members at the IC meetings held in FPE 2016 is as reflected below:

Name of Director	Number of NRC Meetings Attended
Dato' Dr. Ir. Hj. Mohd Abdul Karim Abdullah (Chairman) <i>Non-Independent Executive Director / Group Chief Executive Director</i>	1/1
Dato' Awang Daud Awang Putera <i>Non-Independent Executive Director</i>	1/1
Tengku Dato' Seri Hasmuddin Tengku Othman <i>Independent Non-Executive Director</i>	1/1

CORPORATE

GOVERNANCE STATEMENT

(Cont'd)

4. ACCOUNTABILITY AND AUDIT

a) Financial Reporting

The Board is committed to provide a balanced, clear and comprehensive assessment on the financial performance of the Group in all disclosures made to the stakeholders and the regulatory authorities. The Board is also committed to provide transparent and up-to-date disclosures of the performance of the Group via timely release of announcements on quarterly, half yearly and annual financial statements. The Board, assisted by the ARC, oversees the financial reporting process and the reliability of the financial reporting of the Group. The ARC seeks explanations and additional information from the Senior Management and the Group Chief Financial Officer in regard to the financial performance and preparation of the financial statements of the Group. The ARC reviews and discusses with the external auditors on their observations of the annual and interim financial results of the Group including the appropriateness of the accounting policies applied, its changes and the significant judgements and assumptions made by Management affecting the financial statements as well as compliance with approved accounting standards and regulatory requirements.

b) Internal Control

The Board has the overall responsibility for maintaining a system of internal controls which provides reasonable assurance on the effectiveness and efficiency of the operations that ensure compliance with the applicable laws and regulations, as well as with internal procedures and guidelines.

In view of the size and complexity of the operations of the Group that will involve a wide variety of risks, it is the Board's responsibility to ensure that these risks are properly managed. Depending on the nature of the risks, certain events may occur which would give rise to unanticipated or unavoidable losses. The Group's system of internal controls are designed to provide reasonable and not absolute assurance against the risk of material errors, frauds or losses from occurring. The ARC, supported by the Internal Audit Function reviews the adequacy and effectiveness of the system of internal controls of the Group, covering risk management, operational and compliance controls as well as the process for the identification, evaluation and management of the significant risks faced by the Group. The scope of reviews also covers the internal controls over the financial reporting process and compliance with relevant accounting standards and regulations. Internal Audit Function assesses the operating effectiveness of the risk management, governance and internal control system and checks for compliance with statutory/regulatory requirements, internal policies and procedures as well as review the work processes/procedures for efficiency and effectiveness during its course of audits.

The internal audit reports are tabled to the ARC for their review and deliberations during its periodic meetings and the Board is informed of any significant audit matters reported to the ARC. The Statement on Risk Management and Internal Control, which provides an overview of the state of internal control within the Group, is set out on Page 87 to Page 90 of this Annual Report.

c) Related Party Transactions ("RPT")

The Internal Audit Function conducts review of the RPT and submits to the ARC for review of quarterly reports on the outcome of the review of RPT.

Details of these transactions are set out under Note 26 to the Financial Statements.

d) Audit & Risk Committee

The ARC's duties and responsibilities are set out under its terms of reference approved by the Board. The ARC assists the Board by providing an objective non-executive review of the effectiveness and efficiency of the internal controls, risk management and governance systems of the Group.

The minutes of the ARC meetings are tabled to the Board for noting and action by the Board where appropriate. The activities carried out by the ARC during the year are set out under the Audit & Risk Committee Report on Page 91 to Page 95 of this Annual Report.

CORPORATE GOVERNANCE STATEMENT

(Cont'd)

4. ACCOUNTABILITY AND AUDIT (CONT'D)

e) Relationship with External Auditors

It is the policy of the ARC to meet with the external auditors to discuss its audit plan, audit findings and its views in respect of the true and fair view of the Group's financial statements. The ARC also meets with the external auditors whenever it deems necessary to discuss on key changes to regulatory requirements and latest developments in the accounting and auditing standards.

The external auditors are invited to attend the annual general meeting of the Group and is available to answer shareholders' questions on the conduct of the statutory audit and the preparation and contents of Independent Auditor's report. The ARC is responsible for the review and assessment on the appointment or re-appointment of external auditors for statutory audit, recurring audit-related and non-audit related services. Recurring audit-related and non-audit related services comprise regulatory reviews and reporting, interim reviews, tax advisory and compliance services.

The review and assessment for the appointment / re-appointment of external auditors is carried out annually via an assessment checklist in accordance with the assessment criteria covering regulatory requirements, performance, independence and objectivity, to ensure that the independence and objectivity of the external auditors as statutory auditors is not compromised. In addition, the ARC reviews the terms of engagement for services provided by the external auditors prior to submission to the Board for approval. The Board, upon concurrence with the outcome of the assessment, approved the appointment or re-appointment of the external auditor based on the ARC's recommendation subject to the approval by shareholders at the annual general meeting.

5. EFFECTIVE COMMUNICATION WITH SHAREHOLDERS

The Group attaches great importance to effective communication with shareholders in order to strengthen the mutual relationship with its shareholders and investors. In accordance with the MMLR pertaining to continuing disclosure and the best practices as recommended in the MCCG 2012 with regard to strengthening engagement and communication with shareholders, the Group continuously discloses and disseminates relevant and comprehensive information in a timely manner to its shareholders and the general investing public.

The Group believes that effective and timely communication will enhance shareholders' understanding and appreciation of the Group's business strategies, performance and challenges. Moreover, enhanced engagement also facilitates the ability of the shareholders in making informed investment decisions and in exercising their rights as shareholders. A range of communication channels are used to build a more constructive relationship between the Group and its stakeholders.

a) Annual Report

The Group's annual report provides comprehensive information on the financial results, business performance and operations of the Group. It provides full disclosure and is in compliance with the MMLR on Financial Reporting. Where applicable, the Group also provides disclosures of information over and above the regulatory requirements on a voluntary basis.

The Group disseminates its annual report to its shareholders which highlights of the Group's key financial and corporate information, in order to facilitate shareholders' access to such key information. The annual report is also made available for viewing and download on the corporate website of the Group as soon as it is announced or published.

CORPORATE

GOVERNANCE STATEMENT

(Cont'd)

5. EFFECTIVE COMMUNICATION WITH SHAREHOLDERS (CONT'D)

b) Annual General Meeting ("AGM")

The AGM of the Group provides a useful forum for shareholders to engage directly with the Group's Directors and Senior Management. At the AGM, the Chairman of the meeting presents a comprehensive and concise review of the Group's financial performance and value created for shareholders. This review is supported by visual and graphical presentation of key points and key financial figures.

During the AGM, shareholders are at liberty to raise questions or seek clarification on the agenda items of the general meeting from the Group's Directors and Senior Management Officers. A summary of the proceedings of the annual general meetings is also made available at the corporate website of the Group.

c) Corporate Website

The Group's corporate website provides convenient access to the annual report, press releases, analyst briefings presentation slides and / or also archives all other corporate and financial information that had been made public, such as the quarterly announcement of the financial results of the Group, announcements and disclosures made pursuant to the disclosure requirements of MMLR and other corporate information of the Group.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

1. INTRODUCTION

This Statement on Risk Management and Internal Control is made pursuant to Main Market Listing Requirements (“MMLR”) which require the Board of Directors (“the Board”) to include in its Annual Report a statement about the state of its risk management and internal control. Accordingly, the Board is pleased to provide the Statement on Risk Management and Internal Control that has been prepared in accordance with the “Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers” endorsed by Bursa Malaysia Securities Berhad.

The Board has ultimate responsibility for the oversight of enterprise risk management and satisfying itself that the risk management framework is sufficiently robust and sound. The Board has overall responsibility for the Group’s risk management and internal control system and for reviewing its adequacy and effectiveness. The Board ensures that the risk management and internal control system manages the Group’s relevant and material risks within its risk register in the Group’s pursuit of its strategies and business objectives. The Board continually reviews the system to ensure that the risk management and internal control system provides a reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the relevant and material risks encountered by the Group and a key aspect of this process is the adoption of the three lines of defense model which sets out clear risk management and control responsibilities of the parties involved. The process for assessing the adequacy and effectiveness of the risk management and internal control system is regularly reviewed by the Board, which is assisted by the Audit & Risk Committee (“ARC”).

The Management is responsible for ensuring that the day-to-day management of the Group’s activities is consistent with the risk strategy, including the risk register and policies approved by the Board. To this end, the key responsibilities of the Management in respect of risk management are as follows:

- Ensuring that all relevant and material risks associated with the Group’s business operations have been identified and assessed to determine whether the risks are within the Group’s risk register.
- Designing, implementing and monitoring of the risk management and internal control system in accordance with the Group’s strategies and overall risk register.
- Identifying changes in the operational environment which give rise to risks or emerging risks and taking appropriate actions and the prompt escalation of the identified risks and actions to the Board.

2. RISK MANAGEMENT

The key processes that the Board has established in reviewing the adequacy and effectiveness of the risk management and internal control system include the following:

A. Risk Management Function

The Risk Management Function is responsible for the development and the implementation of the Group Risk Management Framework which sets out the key principles of risk governance, and the development of risk management practices and tools which enable the continuous identification, measurement, controlling and monitoring of all relevant and material risks of the Group including the identification of emerging risks. The key elements of the Group Risk Management Framework which is approved by the Board are as follows:

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

(Cont'd)

2. RISK MANAGEMENT (CONT'D)

A. Risk Management Function (Cont'd)

1. Risk Governance

The Group's risk governance sets out the roles and responsibilities of the Board, the risk committees and the parties involved in the three lines of defense for risk management which consists of the business and support units as the first line of defense, risk management and compliance units as the second line of defense, and internal audit, the third line of defense.

The Board is assisted by the ARC to oversee the management of all identified risks. Risk Management Function of the Group provides main support to the ARC and Management Executive Committees in meeting their responsibilities and is responsible to develop and maintain risk management policies and procedures that are responsive to changes in or expansion of business activities and developments in the operating environment.

2. Risk Register

The Group's risk register defines the amount and types of risk that the Group is able and willing to accept in pursuit of its business objectives. It also reflects the level of risk tolerance and limits to govern, manage and control the Group's risk-taking activities. The risk register of the Group is articulated via a set of risk indicators and risk limits. All entities within the Group are required to develop risk indicators and risk limits that have considered the respective entities' strategic business directions, risk taking capacity, risk profile and the operating environment. The processes for setting, cascading, monitoring and ongoing review of the risk register are set out in the Group Risk Register Framework.

The Risk Register is comprised of a series of unrelated spreadsheets across a combination of business units and risk types. The registers are to:

- use a system of unique Risk IDs that provide a linkage of risk to the Group's core strategies and functional business areas;
- list the risks which could cause losses to be incurred and possible causes;
- list the consequences;
- provide an assessment of the risks;
- detail the existing risk mitigators;
- provide an assessment of the strength of the mitigators;
- provide an assessment of the risks;
- detail any action plans to reduce residual risks.

Whenever any functions or systems are developed or changed, or new strategies, products or projects are considered, management is required to carry out a risk appraisal. This review is carried out using the procedures and tools set out in the Group Risk Management Methodology. The respective Risk Register is to be updated accordingly.

3. Risk Management Process

The information gathered at each stage of the Risk Management Process should be documented in the Group Risk Registers. In creating the Risk Register, the risk owners (i.e. the persons who are actually accountable for managing the risk and its consequences) can satisfy themselves that they have defined and properly addressed the real risk. It makes it easier to review the risks and ensure that they continue to be complete, relevant and accurate having regard for both internal and external changes. A structured approach to risk management which balances risks against returns is established for all relevant and material risks.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

(Cont'd)

2. RISK MANAGEMENT (CONT'D)

B. Internal Control System

The key elements of the internal control system of the Group are as follows:

1. Board & Its Committee

The Board has delegated authority to various Board committees such as the ARC, Nomination and Remuneration Committee ("NRC") and Investment Committee ("IC") to enable them to oversee certain specific responsibilities based on clearly defined terms of reference. Any change to the terms of reference for any Board committee requires Board approval. Further information on the Board Committees is included in the Statement on Corporate Governance.

2. Management Executive Committee

The Management Executive Committee is established to ensure that the day-to-day business operations are consistent with the corporate objectives, strategies and business plans and budgets approved by the respective Boards including addressing issues emanating from both the external business environment and internal operating conditions.

3. Internal Controls, Policies and Procedures

A system of internal controls based on segregation of duties, independent checks, segmented system access control and multitier authorisation processes is put in place to ensure control procedures and limits are implemented and complied with. Authority limits are imposed on the Management within the Group to govern the day-to-day risk taking activities such as treasury operations, investments, acquisitions and disposal of assets. Policies and procedures are formulated in support of the Group's internal control framework. These policies and procedures are subject to periodic review and updated during the year in response to changes in the operational needs, business environment or regulatory requirements and are approved by the Boards, relevant board committees or management committees.

C) Internal Audit Function

The Internal Audit Function of the Group's check for compliance with statutory/regulatory requirements, internal policies and procedures and review the work processes/procedures for efficiency and effectiveness. In addition, the Internal Audit Function assess the operating effectiveness of the risk management and internal control systems during their course of the audits. Audits are carried out by Internal Audit Function, the frequency of which is determined by the level of assessed risks, to provide an independent and objective report on operational and management activities of the Group. The annual audit plan is reviewed and approved by the ARC. Audit findings are submitted to the ARC for review at their special / quarterly meetings.

The ARC reviews internal control issues identified by the respective Internal Audit Function, the external auditors, the regulatory authorities and the Management, including the remedial actions taken to address issues identified, and evaluate the adequacy and effectiveness of the risk management and internal control systems. The ARC also review the internal audit functions with particular emphasis on the audit scope, the frequency of audits and the adequacy and knowledge of the resources. The minutes of the ARC meetings are tabled to the Boards. Further details of the activities undertaken by the Audit & Risk Committee of the Group are set out in the Audit Committee Report.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

(Cont'd)

2. RISK MANAGEMENT (CONT'D)

D) Assurance From Management

The Board has received assurance from the Group Chief Executive Officer and the Group Chief Financial Officer that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system adopted by the Group. Taking into consideration the assurance from the management and input from the relevant assurance providers, the Board is of the view that the Group's risk management and internal control system in place for the financial year under review and up to the date of approval of this statement for inclusion in the Annual Report is adequate and effective to safeguard the interests of shareholders, customers, employees and the Group's assets.

3. REVIEW OF STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ('RPG') 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ('MIA') for inclusion in the annual report of the Group for the period ended 31 December 2016, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

- a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- b) is factually inaccurate.

RPG 5 (Revised) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

4. CONCLUSION

The Board is of the view that the risk management and internal control system described in this statement is considered appropriate to the business operations presently. Also, the risks taken are at an acceptable level within the business environment throughout the Group. It should be noted that such arrangements do not eliminate the possibility of collusion or deliberate circumvention of procedures by employees. Human error and/or other unforeseen circumstances can result in poor judgement. However, the risk management and internal control system that existed throughout the year provide a level of confidence on which the Board relies for assurance.

AUDIT COMMITTEE REPORT

1. COMPOSITION

The Audit & Risk Committee (“ARC”) was formed by the Board and the Committee members was appointed by the Board from amongst the Board members.

The functions and duties of the ARC extends to the Company and all its subsidiaries (“Group”) as well as joint ventures and associate companies where management responsibility is vested on the Group.

2. FUNCTIONS & DUTIES

The ARC shall carry out the following functions and duties:

a) Financial Statements

- o Review the quarterly results and annual financial statements of the Group prior to the approval by the Board, focusing particularly on the following:
 - any changes in or implementation of major accounting policy changes;
 - major judgmental areas, significant and unusual events;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements.
- o Review, with the Group’s Counsel, any legal matter that could have a significant impact on the Group’s financial statements (as and when necessary).

b) Internal Control

- o Assess the quality and effectiveness of the systems of internal control and the efficiency of the Group’s operations, particularly those relating to areas of significant risks. Evaluate the process the Group has in place for assessing and continuously improving internal controls.
- o Assess the internal process for determining and managing key risks other than those that are dealt with by other specific Board committees.
- o Review the evaluation by the internal and external auditors of the Group’s system of internal control and thereafter report the same to the Board.
- o Review External and Internal Audit reports and Management’s response and ensure that appropriate action is taken in respect of these reports.

c) Internal Audit

- o Approve the Internal Audit Charter and review the adequacy of the scope, functions, competency and resources of the Internal Audit Function, and whether it has the necessary authority to execute its work.
- o Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Function and thereafter report the same to the Board. Where actions are not taken within an adequate timeframe by Management, the ARC shall also report the same to the Board for its further action.
- o Consider the major findings of internal audit and management’s responses, monitor the implementation of any recommendations made therein and ensure effective coordination between the internal and external auditors.
- o Direct and where appropriate supervise any special project or investigations considered necessary, to be carried out by Internal Audit Function as and when necessary and consider the major findings of the internal investigations and Management’s response.

AUDIT

COMMITTEE REPORT

(Cont'd)

d) External Audit

- o Recommend the nomination of external auditors, the audit fees and any question of resignation or dismissal of external auditors and thereafter report the same to the Board.
- o Review and discuss with the external auditors, before the audit commences, the nature and scope of the audit, and discuss any significant problems that may be foreseen with the external auditors before the audit commences, and ensure co-ordination where more than one audit firm is involved, and ensure that the audit is carried out effectively and efficiently for the Group;
- o Discuss problems and reservations arising from the internal and final audits, including assistance given by the employees and any matters the auditors may wish to discuss, in the absence of Management or Executive Directors where necessary.
- o Review the external auditor's management letter and management's response including the status of the previous audit recommendations.

e) Related Party Transactions

- o Review any related party & recurrent related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course that raises questions of management integrity.

f) Compliance

- o Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- o Review the findings of any examinations by regulatory authorities.
- o Obtain regular updates from Management and the Group's legal counsel regarding regulatory compliance matters.
- o Review and consider any related party & recurrent related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

g) Risk Management

- o Provide oversight, guidance and direction to the Group's risk management function and processes.
- o Recommend the Group's risk management policies, strategies and risk tolerance levels, and any proposed changes thereto for the Board's consideration and approval.
- o Ensure that Management integrates the necessary risk management processes into all business processes of the Group.
- o Evaluate the effectiveness of the Enterprise Risk Management framework, risk management processes and support system to identify, assess, monitor and manage the Group's key risks.
- o Review the risk identification and management process developed by Management to confirm it is consistent with the Group's strategy and business plan.
- o Review Management's assessment of risk on a quarterly basis and provide quarterly updates to the Board.
- o Enquire Management and the independent auditor about the exposure to such risks in relation to significant business, political, financial and control risks.
- o Assess the steps/actions Management has implemented or wish to implement to manage and mitigate identifiable risk, including the use of hedging and insurance.
- o Deliberate on compliance related matters of the Group and review the effectiveness of systems for monitoring compliance with laws and regulations.
- o Review findings, material issues or non-compliances highlighted by the regulatory authorities in relation to the regulated businesses of the Group.
- o Deliberate, review and evaluate the existing compliance framework and to recommend measures for improvement by adopting the best practices.
- o Perform any other roles and responsibilities as may be required by the Board from time to time and/or which are related to the objectives of the Committee.

AUDIT COMMITTEE REPORT

(Cont'd)

h) Other Matters

- o Review periodic reports from Management, the external auditors and the internal auditors to assess the impact of significant regulatory changes and accounting or reporting developments proposed by accounting and other bodies, or any significant matter that may have a bearing on the annual examination.
- o Discuss problems and reservation arising from the internal audit, interim and final audits, and on matters that the internal and external auditors may wish to discuss, in absence of Management where necessary.
- o Report to the Board at least once a year, the activities of the ARC, including the number of meetings held during the year and the details of attendance of each member in respect of the meetings and a summary of the activities of the internal audit & risk management function.
- o Where the ARC is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of Main Market Listing Requirements, the ARC must promptly report such matter to Bursa Malaysia.
- o Execute any other functions that may be mutually agreed by the ARC and the Board.

3. MEETINGS

The details of attendance of each ARC member are shown in the table below:

Name of Director	Number of ARC Meetings Attended
Hasman Yusri Yusoff (Chairman) <i>Independent Non-Executive Director</i>	1/1
Hj. Abdul Kadier Sahib <i>Non-Independent Non-Executive Director</i>	2/2
Sharifah Irina Syed Ahmad Radzi <i>Independent Non-Executive Director</i>	2/2
Dato' Mohamed Nor Bin Abu Bakar <i>Independent Non-Executive Director</i>	1/1

4. INTERNAL AUDIT FUNCTION

The ARC is supported by the Internal Audit Function in the discharge of its duties and responsibilities. Internal Audit Function, as the third line of defense, checks for compliance with statutory/regulatory requirements, internal policies and procedures and reviews the internal control and governance procedures for adequacy and effectiveness. In FYE2016, the Group has engaged Salihin Consulting Group Sdn. Bhd. ("SALIHIN") as Internal Auditor to undertake a Risk Based Internal Audit Consultancy. The cost incurred by the internal Audit Function in discharging its functions and responsibilities for the working period set for financial year ended 31 December 2016 was approximately RM76,427.

The general scope and responsibilities of the Internal Audit Function include but are not limited to, conducting reviews, examination and evaluation of the adequacy and effectiveness of the Group's risk management processes, internal control assurance and corporate governance practices in carrying out assigned responsibilities to achieve the Group's stated mission and vision.

AUDIT

COMMITTEE REPORT

(Cont'd)

The responsibilities further include the following:

- Develop and prepare an annual audit plan of work using appropriate risk-based methodology and approach and submit to ARC for review and approval.
- Review the reliability and integrity of any financial information via financial reporting statements and accounts and the means used to identify, measure, classify and report such information.
- Review the adequacy of the Group's risk management framework in identifying and evaluating the adequacy and effectiveness of risk management processes.
- Review the systems performance which have been established to ensure compliance with policies, procedures, laws and regulations which could have a significant impact on operations and adequacy and effectiveness of governance practices.
- Review the system of internal controls of the Group to ensure its adequacy and integrity in managing principal risks and controls.
- Execute risk based audits of strategic business units of the Group which covers review of internal control assurance, accounting, management information system, risk management processes and corporate governance practices including ad-hoc assignment initiated or instructed by the ARC, the Board or the management.
- Obtain management's comments and action plans on audit findings and evaluate the relevant and effectiveness of the comments and action plans.
- Ensure that management's action plans shall include a timetable for anticipated completion of action to be taken and an explanation for any recommendations not addressed.
- Distribute audit reports upon completion of audits to members of the ARC, the GCFO and auditees. To follow-up with management to ensure adequate, appropriate and effective corrective actions are taken on timely basis.
- Review the safeguarding of assets and verify the existence of assets.
- Review any operation or program in ascertaining whether the operations are carried out as planned and the results are in line with the established objectives and goals.
- Maintain a comprehensive Internal Audit Function Manual setting out minimum internal auditing standard, work programs, audit procedures and update practices to guide the work of the Internal Auditors.
- Ensure all significant findings shall remain as open until cleared by the Head of IA Function or the ARC.
- Consult on internal controls for new and major system changes prior to implementation to ensure adequate internal controls and documentations are in place.
- Evaluate potential exposure or risk in various segments of the Group's operations.
- Attend all the ARC meetings to table and discuss the audit reports and follow up on matters raised.

The Internal Auditor, in the discharge of his / her duties, shall be accountable to the ARC to:

- Assess the adequacy and effectiveness of the Group's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the Group and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, and ethics, environmental and external audit).

AUDIT COMMITTEE REPORT

(Cont'd)

5. SUMMARY OF ACTIVITIES

For the financial year ended 31 December 2016, the ARC had executed the following activities in the discharge of its roles and responsibilities:

a) Financial Reporting

The ARC had reviewed the unaudited quarterly and half-yearly financial results as well as the annual audited financial statement of the Group. The review, covers among others, an assessment on the appropriateness of the accounting policies applied. The ARC had sought explanations and additional information from the Senior Management including the Group Chief Financial Officer on the reasons for the variances / fluctuations in the financial performance of the Group, including the key income and operating expenses.

In reviewing the quarterly and annual financial results, the ARC focused on the following:

- Profits contribution by domestic and overseas operations;
- Profits contribution by business segments;
- Trends on financial ratios such as return on equity, net interest margin, cost of funds, cost to-income ratio, loan loss allowances ratio and capital ratio; and
- Significant issues relating to adoption of accounting policies and fiscal reporting.

b) External Audit

The ARC reviewed and evaluated the external auditors' audit plan for the financial year ending 31 December 2017. The external auditors' audit plan covered its engagement team, concept of materiality, independence and objectivity, and the areas of audit emphasis. The ARC also reviewed key audit issues raised by the external auditors from its annual audit in its management letter including Management's responses/actions taken on the resolution of such issues.

c) Internal Audit

In its oversight over the Internal Audit Function, the ARC approved the internal audit framework and the annual audit plan to ensure adequate scope and comprehensive coverage over the activities of the Group and ensured that all high risk areas are audited at least annually. During the year, the ARC reviewed and deliberated on the revisions made to the Internal Audit Charter and recommended the same to the Board for approval.

The ARC reviews and monitors the Internal Audit's performance, progress of achievement of approved annual audit plan and adequacy of audit coverage on a quarterly basis. The ARC also reviewed and approved the action plans to address the competency gaps and audit methodology of the Internal Audit Function.

The Internal Audit reports were tabled to the ARC in their meetings for their review, deliberations and noting / approval. Senior Management officers were invited to attend the meetings as and when necessary to brief the ARC on matters relating to their areas of responsibility. Where appropriate, the ARC had directed Management to rectify and improve control procedures based on the internal auditors' recommendations. The ARC also monitored the progress of the corrective actions taken by Management to ensure appropriate remedial actions were taken on a timely basis to address all key areas of risk and control issues.

For the financial year under review, the ARC noted that there was no significant disagreement between the Internal Audit Function and the Management.

Financial Statement

Directors' Report	97
Statement of Financial Position	101
Statement of Profit or Loss and Other Comprehensive Income	103
Consolidated Statement of Changes in Equity	104
Statement of Cash Flows	106
Notes to the Financial Statements	108
Statement by the Directors	163
Statutory Declaration	164
Independent Auditors' Report	165

Proxy Form

Enclosed



DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the period ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding and provision of management services while the principal activities of the subsidiaries are as stated in Note 4 to the financial statements. There has been no significant change in the nature of these activities during the period.

RESULTS

	Group RM	Company RM
Profit/(Loss) for the period attributable to:		
Owners of the Company	151,831,220	(266,760)
Non-controlling interests	(391,277)	–
	<hr/> 151,439,943	<hr/> (266,760)

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the period under review.

DIVIDEND

The Company has no distributable reserves with which to pay dividend.

DIRECTORS OF THE COMPANY

Directors who served since the date of incorporation until the date of this report are:

Dato' Mohammed Nor Bin Abu Bakar (appointed on 31.5.2016)
 Dato' Ir. Dr. Mohd Abdul Karim Bin Abdullah (appointed on 31.5.2016)
 Abdul Kadier Sahib (appointed on 31.5.2016)
 Dato' Awang Daud Bin Awang Putera (appointed on 31.5.2016)
 Tengku Dato' Seri Hasmuddin Tengku Othman (appointed on 31.5.2016)
 Sharifah Irina Binti Syed Ahmad Radzi (appointed on 31.5.2016)
 Hasman Yusri Bin Yusoff (appointed on 16.11.2016)
 Faridah Binti Mahmood (first director and resigned on 31.5.2016)
 Farida Hanom Binti Hussin (first director and resigned on 31.5.2016)

DIRECTORS'

REPORT

(Cont'd)

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 2.12.2015	Bought	Sold	At 31.12.2016
The Company				
<u>Direct interests:</u>				
Faridah Binti Mahmood	1	–	1	–
Farida Hanom Binti Hussin	1	–	1	–
Dato’ Ir. Dr. Mohd Abdul Karim Bin Abdullah	–	388,315,600	–	388,315,600
Dato’ Awang Daud Bin Awang Putera	–	196,389,500	–	196,389,500
Abdul Kadier Sahib	–	307,974,400	–	307,974,400

DIRECTORS' BENEFITS

Since the date of incorporation, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full time employee of the Company and of its related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial period which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ISSUE OF SHARES AND DEBENTURES

The Company was incorporated with an authorised share capital of RM400,000 comprising 800,000 ordinary shares. Two ordinary shares were issued as subscribers' share at par for cash upon incorporation.

The Company created 1,499,200,000 new ordinary shares during the financial period, increasing its authorised share capital from RM400,000 to RM750,000,000. On 25 May 2016, the Company issued 1,063,599,998 ordinary shares as purchase consideration for the acquisition of entire issued and paid-up share capital of Serba Dinamik Group Berhad.

Save as above, there was no other changes in the authorised issued and paid-up capitals of the Company, nor issuances of debentures by the Company, during the financial period.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial period.

DIRECTORS' REPORT (Cont'd)

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i. there are no bad debts to be written off and no provision need be made for doubtful debts, and
- ii. all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- i. that would render it necessary to write off any bad debts or provide for any doubtful debts, or
- ii. that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii. which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv. not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- i. any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii. any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial period.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial period ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial period and the date of this report.

DIRECTORS'

REPORT

(Cont'd)

AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Dato' Ir. Dr. Mohd Abdul Karim Bin Abdullah
Director

Dato' Awang Daud Bin Awang Putera
Director

Shah Alam,

Date: 12 April 2017

STATEMENT OF FINANCIAL POSITION

	Note	Group 2016 RM	Company 2016 RM
Assets			
Property, plant and equipment	3	490,173,354	–
Investment in subsidiaries	4	–	531,799,999
Investment in associates	5	12,220,000	–
Other investments	6	306,435	–
Intangible assets	7	3,836,124	–
Deferred tax assets	8	702,966	–
Total non-currents assets		507,238,879	531,799,999
Inventories	9	486,349,394	–
Trade and other receivables	10	741,193,625	–
Deposits and prepayments	11	11,320,565	1,413,766
Current tax assets		930,656	–
Other investments	6	52,445,755	–
Cash and cash equivalents	12	187,352,968	1
Total current assets		1,479,592,963	1,413,767
Total assets		1,986,831,842	533,213,766
Equity			
Share capital	13.1	531,800,000	531,800,000
Merger reserve	13.2	(434,709,541)	–
Other reserve	13.3	124,945,821	–
Retained earnings/(Accumulated losses)		587,177,665	(266,760)
Total equity attributable to owners of the Company		809,213,945	531,533,240
Non-controlling interests	4	7,928,542	–
Total equity		817,142,487	531,533,240

STATEMENT OF FINANCIAL POSITION

(Cont'd)

	Note	Group 2016 RM	Company 2016 RM
Liabilities			
Deferred tax liabilities	8	14,354,933	–
Loans and borrowings	14	16,229,197	–
Employment benefits	15	491,800	–
Total non-current liabilities		31,075,930	–
Trade and other payables	16	501,008,873	1,680,526
Loans and borrowings	14	623,431,817	–
Current tax payable		14,172,735	–
Total current liabilities		1,138,613,425	1,680,526
Total liabilities		1,169,689,355	1,680,526
Total equity and liabilities		1,986,831,842	533,213,766

The notes on pages 108 to 161 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the period from 2 December 2015 (date of incorporation) to 31 December 2016

	Note	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Revenue	17	1,408,556,303	–
Cost of sales/services		(1,173,604,255)	–
Gross profit		234,952,048	–
Other operating income		544,805	–
Administrative expenses		(51,380,354)	(266,760)
Results from operating activities	18	184,116,499	(266,760)
Finance costs	19	(19,790,227)	–
Finance income	19	2,277,715	–
Net finance costs		(17,512,512)	–
Profit before tax		166,603,987	(266,760)
Tax expense	20	(15,164,044)	–
Profit/(Loss) for the period		151,439,943	(266,760)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		46,030,199	–
Total comprehensive income/(loss) for the period		197,470,142	(266,760)
Profit/(Loss) for the financial period attributable to:			
- Owners of the Company		151,831,220	(266,760)
- Non-controlling interests	4	(391,277)	–
Profit for the period		151,439,943	(266,760)
Total comprehensive income/(loss) attributable to:			
- Owners of the Company		198,111,910	(266,760)
- Non-controlling interests		(641,768)	–
Total comprehensive income/(loss) for the period		197,470,142	(266,760)
Basic and diluted earnings per ordinary shares (sen)	22	14.28	

The notes on pages 108 to 161 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 2 December 2015 (date of incorporation) to 31 December 2016

Group	Attributable to owners of the Company						Total equity RM
	Share capital RM	Merger deficit RM	Foreign currency translation reserve RM	Other reserves RM	Retained earnings RM	Non- controlling interests RM	
At 2 December 2015 (date of incorporation)	1	-	-	-	-	-	1
Issue of ordinary shares (Note 13.1)	531,799,999	-	-	-	-	-	531,799,999
Effect of acquisition of subsidiaries	-	(434,709,541)	33,407,323	45,257,808	435,346,445	8,570,310	87,872,345
Foreign currency translations differences for foreign operations	-	-	46,280,690	-	-	(250,491)	46,030,199
Profit for the period	-	-	-	-	151,831,220	(391,277)	151,439,943
Total comprehensive income for the period	-	-	46,280,690	-	151,831,220	(641,768)	197,470,142
At 31 December 2016	531,800,000	(434,709,541)	79,688,013	45,257,808	587,177,665	7,928,542	817,142,487
	(Note 13.1)	(Note 13.2)	(Note 13.3)	(Note 13.3)			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 2 December 2015 (date of incorporation) to 31 December 2016
(Cont'd)

	Note	Non-distributable Share capital RM	Accumulated losses RM	Total RM
Company				
At 2 December 2015 (date of incorporation)		1	–	1
Loss and total comprehensive loss for the period		–	(266,760)	(266,760)
Issue of ordinary shares	13.1	531,799,999	–	531,799,999
At 31 December 2016		531,800,000	(266,760)	531,533,240

(Note 13.1)

STATEMENT OF CASH FLOWS

for the period from 2 December 2015 (date of incorporation) to 31 December 2016

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Cash flows from operating activities		
Profit/(Loss) before tax	166,603,987	(266,760)
Adjustments for:		
Depreciation of property, plant and equipment (Note 3)	32,951,811	–
Finance income (Note 19)	(2,277,715)	–
Finance costs (Note 19)	19,790,227	–
Employment benefits (Note 15)	95,128	–
Property, plant and equipment written off [Note 3]	16,205,422	–
Unrealised foreign exchange gain	(434,821)	–
Operating profit/(loss) before changes in working capital	232,934,039	(266,760)
Changes in working capital:		
Inventories	(186,570,243)	–
Trade and other receivables	(107,242,415)	(1,413,766)
Trade and other payables	118,300,421	1,680,526
Cash generated from operations	57,421,802	–
Interest or profit paid	(609,044)	–
Tax paid	(401,398)	–
Net cash from operating activities	56,411,360	–
Cash flows from investing activities		
Cash and cash equivalents acquired through acquisition of subsidiaries	64,311,540	
Acquisition of property, plant and equipment [Note (i)]	(109,526,489)	–
Interest received	2,277,715	–
Increase in term deposits pledged to banks	(21,628,349)	–
Increase in other investment	(10,889,066)	–
Net cash used in investing activities	(75,454,649)	–
Cash flows from financing activities		
Interest or profit paid	(19,181,183)	–
Proceed from issuance of ordinary shares	1	1
Net repayment of term loans	(12,963,346)	–
Net repayment of finance lease liabilities	(994,912)	–
Net proceeds from loans and borrowings	95,913,755	–
Net cash from financing activities	62,774,315	1
Net increase in cash and cash equivalents	(43,731,026)	1
Cash and cash equivalents at beginning of period	–	–
Cash and cash equivalents at end of period [Note (ii)]	43,731,026	1

STATEMENT OF CASH FLOWS

(Cont'd)

Notes:**(i) Acquisition of property, plant and equipment**

During the period, the Group acquired property, plant and equipment as follows:

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Paid in cash	109,526,489	–
In the form of finance lease	1,300,903	–
Total (see Note 3)	110,827,392	–

(ii) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following amounts in the statements of financial position:

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Term deposits placed with licensed banks	133,030,762	–
Cash and bank balances	54,322,206	1
Total (see Note 12)	187,352,968	1
Less: Bank overdrafts (Note 14)	(10,591,180)	–
Less: Deposits pledged (Note 12)	(133,030,762)	–
	43,731,026	1

NOTES TO THE FINANCIAL STATEMENTS

Serba Dinamik Holdings Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The address of its registered office is No. 8-5, Pusat Dagangan UMNO Shah Alam, Lot 8, Persiaran Damai Seksyen 11, 40100 Shah Alam, Selangor Darul Ehsan.

The consolidated financial statements of the Company as at and for the financial period ended 31 December 2016 comprise the financial statements of the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”) and the Group’s interest in associates.

The Company is principally engaged in investment holding and provision of management services while the principal activities of the subsidiaries are stated in Note 4 to the financial statements.

On 25 May 2016, the shareholders of the Company entered into the Share Purchase Agreement with Serba Dinamik Group Berhad (“Serba Dinamik Group”) for the purchase by the Company from the shareholders of the entire issued and paid-up share capital of Serba Dinamik Group, 73,978,860 ordinary shares of RM1.00 each, at a total consideration of RM531,799,999 to be satisfied by the issuance of a total of 1,063,599,998 ordinary shares of RM0.50 each in the Company to each of the shareholder. Since then, the Company became the holding company of Serba Dinamik Group.

The acquisition of shares forms part of the internal reorganisation of the Group and its group of companies in relation to the initial public offering of the ordinary shares in the Company and the listing of the Company on the Main Market of Bursa Malaysia Securities Berhad on 8 February 2017.

The financial statements were authorised for issue by the Board of Directors on 12 April 2017.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”) and International Financial Reporting Standards.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Company:

MFRS / Amendment / Interpretation	Effective date
Amendments to MFRS 12, Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2017
Amendments to MFRS 107, <i>Statement of Cash Flows - Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112, <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
MFRS 9, <i>Financial Instruments (2014)</i>	1 January 2018
MFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to MFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
IC Interpretation 22, <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 1, <i>First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)</i>	1 January 2018
Amendments to MFRS 2, <i>Share-based Payment – Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 4, <i>Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

1. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

MFRS / Amendment / Interpretation	Effective date
Amendments to MFRS 128, <i>Investments in Associates and Joint Ventures</i> (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2018
Amendments to MFRS 140, <i>Investment Property</i> – <i>Transfers of Investment Property</i>	1 January 2018
MFRS 16, <i>Leases</i>	1 January 2019
Amendments to MFRS 10, <i>Consolidated Financial Statements and</i> <i>MFRS 128, Investments in Associates and Joint Ventures -</i> <i>Sale or Contribution of Assets between an Investor and its</i> <i>Associate or Joint Venture</i>	To be confirmed

The Group and the Company plan to apply:

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on 1 January 2017.
- from the annual period beginning on 1 January 2018 for MFRS 9, MFRS 15, Clarifications to MFRS 15, IC Interpretation 22, and Amendments to MFRS 128, which are effective for annual period beginning on or after 1 January 2018.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material financial impacts to the financial statements of the Group and the Company except as mentioned below:

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue Barter Transactions Involving Advertising Services*. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition might be different as compared with the current practices.

The adoption of MFRS 15 will result in a change in accounting policy. The Group and the Company are currently assessing the financial impact of adopting MFRS 15.

(ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost. It is expected that the Group's and the Company's investment in unquoted shares will be measured at fair value through other comprehensive income.

The adoption of MFRS 9 will result in a change in accounting policy. The Group and the Company are currently assessing the financial impact of adopting MFRS 9.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

1. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

(iii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(iv) *Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*

The amendments clarify that an entity, which is a venture capital organisation, or a mutual fund, unit trust or similar entities, has an investment-by-investment choice to measure its investments in associates and joint ventures at fair value.

The Group is currently assessing the financial impact that may arise from the adoption of the amendments.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, other than disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by the Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(ii) *Business combinations*

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) *Acquisitions of non-controlling interests*

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of consolidation (Cont'd)

(iv) *Acquisitions from entities under common controls*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any resulting gain/loss is recognised directly in equity.

(v) *Loss of controls*

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) *Associates*

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates are measured in the Group's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of the investment includes transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of consolidation (Cont'd)

(vii) *Non-controlling interests*

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the period between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(viii) *Transactions eliminated on Consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve ("FCTR") in equity.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of consolidation (Cont'd)

(ii) *Operations denominated in functional currencies other than Ringgit Malaysia ("RM")*

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the FCTR in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Financial instruments

(i) *Initial recognition and measurement*

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial instruments (Cont'd)

(ii) *Financial instrument categories and subsequent measurement*

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) ***Financial assets at fair value through profit or loss***

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) ***Held-to-maturity investments***

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group and the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(c) ***Loans and receivables***

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(d) ***Available-for-sale financial assets***

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment [see Note 2(i)(i)].

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial instruments (Cont'd)

(ii) *Financial instrument categories and subsequent measurement (Cont'd)*

Financial liabilities

All financial liabilities, other than those categorised as fair value through profit or loss, are subsequently measured at amortised cost.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combinations or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair value arising from financial guarantee contracts are classified as deferred income and is amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) *Regular way purchase or sale of financial assets*

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial instruments (Cont'd)

(v) *Derecognition*

A financial asset or a part thereof is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part thereof is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(d) Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other operating income" and "administrative expenses" respectively in profit or loss.

(ii) *Subsequent costs*

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (Cont'd)

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Assets under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current period are as follows:

Buildings	50 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fittings and office equipment	10 years
Tools and equipment	10 years
Office renovation	10 years

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period, and adjusted as appropriate.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Leased assets (Cont'd)

(ii) *Operating lease*

Leases, where the Group and the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(f) Intangible assets

(i) *Goodwill*

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates.

(ii) *Other intangible assets*

Intangible assets, other than goodwill, that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates.

(iv) *Amortisation*

Goodwill is not amortised but is tested for impairment annually and whenever there is an indication that it may be impaired.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible asset. Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is determined on the first-in first-out cost basis. The cost of inventories include expenditure in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(i) Impairment

(i) *Financial assets*

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Impairment (Cont'd)

(ii) *Other assets*

The carrying amounts of other assets (except for inventories [refer Note 2(g)] and deferred tax assets [refer Note 2(p)]) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purpose. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amounts of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial period in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the Group's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as financial liability if it is redeemable on a specific date or at the option of the equity holders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

(k) Compound financial instruments

A compound financial instrument is a non-derivative financial instrument that contains both a liability and an equity component.

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued does not vary with changes in their fair value.

The proceeds are first allocated to the liability component, determined based on the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The residual amount is allocated as the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

(l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Employee benefits (Cont'd)

(ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Provisions (Cont'd)

(iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(n) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Services rendered

Revenue from services rendered is recognised in profit or loss based on work orders and contract terms, agreed billing schedule as well as based on overall performance of services rendered.

(iii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to-date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(iv) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(v) Rental income

Rental income is recognised in profit or loss as it accrues, based on rates agreed with tenants.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Revenue and other income (Cont'd)

(vi) *Government grants*

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(vii) *Dividend income*

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(viii) *Interest income*

Interest income is recognised in profit or loss as it accrues, taking into account the effective yield on the asset.

(ix) *Management fees*

Management fees are recognised in profit or loss as it accrues at contracted rates.

(o) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial periods.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Income tax (Cont'd)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

(q) Earnings per ordinary share

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(s) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT - GROUP

Cost	Freehold land RM	Long-term leasehold land (Unexpired lease term > 50 periods) RM	Short-term leasehold land (Unexpired lease term < 50 periods) RM	Buildings RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and office equipment RM	Tools and equipment RM	Office renovation RM	Work in progress RM	Total RM
At 25 May 2016	-	-	-	-	-	-	-	-	-	-	-
Acquisition through subsidiaries	4,037,416	3,100,000	936,000	11,643,000	116,466,617	15,172,754	5,878,728	331,921,870	2,434,527	18,652,357	510,243,269
Additions	-	-	-	-	58,287,258	1,075,119	376,623	51,051,122	37,270	-	110,827,392
Written-off	-	-	-	-	(895,120)	(37,000)	-	(17,248,699)	-	-	(18,180,819)
Total effect of movement in exchange rates	28,769	-	-	-	5,990,393	199,736	51,823	14,605,894	-	276,890	21,153,505
At 31 December 2016	4,066,185	3,100,000	936,000	11,643,000	179,849,148	16,410,609	6,307,174	380,330,187	2,471,797	18,929,247	624,043,347
Depreciation											
At 25 May 2016	-	-	-	-	-	-	-	-	-	-	-
Acquisition through subsidiaries	-	74,167	233,385	1,332,336	25,435,928	8,314,192	2,955,730	61,064,178	1,158,583	-	100,568,499
Depreciation for the period (Note 18)	-	5,833	48,904	154,046	8,753,689	1,172,769	377,442	22,323,130	115,998	-	32,951,811
Written off	-	-	-	-	-	(36,999)	-	(1,938,398)	-	-	(1,975,397)
Total effect of movement in exchange rates	-	-	-	-	963,255	35,806	34,530	1,291,489	-	-	2,325,080
At 31 December 2016	-	80,000	282,289	1,486,382	35,152,872	9,485,768	3,367,702	82,740,399	1,274,581	-	133,869,993
Carrying amounts											
At 31 December 2016	4,066,185	3,020,000	653,711	10,156,618	144,696,276	6,924,841	2,939,472	297,589,788	1,197,216	18,929,247	490,173,354

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

3.1 Leased property, plant and equipment

The carrying amounts of the property, plant and equipment under finance leases are as follows:

	Carrying amounts 2016 RM
Group	
Plant and machinery	7,813,816
Motor vehicles	6,679,874
	<hr/> 14,493,690 <hr/>

3.2 Security

The assets under finance leases are charged to secure the finance lease liabilities of the Group (see Note 14).

The following property, plant and equipment are charged as security for certain borrowings of the Group (see Note 14).

	Carrying amounts 2016 RM
Group	
Buildings	10,156,618
Leasehold land	1,213,115
Plant and machinery, tools and equipment	2,911,206
	<hr/>

4. INVESTMENT IN SUBSIDIARIES - COMPANY

	2016 RM
Unquoted shares, at cost	531,799,999
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

4. INVESTMENT IN SUBSIDIARIES - COMPANY (CONT'D)

Details of subsidiaries, are as follows:

Subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2016 %
Serba Dinamik Group Berhad Malaysia	Malaysia	Investment holding and provision of management services	100
Serba Dinamik International Ltd. ("SDIL")	Malaysia	Operation and maintenance of plants and facilities, engineering, procurement, construction and commissioning and related products and services	100
Serba Dinamik Sdn. Bhd. ("SDSB")	Malaysia	Operation and maintenance of plants and facilities, engineering, procurement, construction and commissioning, technical training and related products and services	100
Serba Dinamik IT Solutions Sdn. Bhd. ("SDIT")	Malaysia	Information and communications technology software and solutions	100
SD Controls Sdn. Bhd.**	Malaysia	Testing and calibration of process control and instrumentation	80
SD Advance Engineering Sdn. Bhd. **	Malaysia	Maintenance of micro turbines and related products and services	51
Serba Dinamik (B) Sdn. Bhd.^	Brunei	Operation and maintenance of plants and facilities, engineering, procurement, construction and commissioning and related products and services	75
AR Global Engineering Sdn. Bhd.	Malaysia	Process control, instrumentation and related products and services	100
Serba Dinamik RMC FZE ^	United Arab Emirates	Maintenance, repair and overhaul, fabrication and logistic services	100

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

4. INVESTMENT IN SUBSIDIARIES - COMPANY (CONT'D)

Subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2016 %
<u>Subsidiary of SDIL</u>			
PT Serba Dinamik Indonesia **	Indonesia	Operation and maintenance of plants and facilities, engineering, procurement, construction and commissioning and related products and services	75
Serba Dinamik International Petroleum Services W.L.L **	Kingdom of Bahrain	Operation and maintenance of plants and facilities, engineering, procurement, construction and commissioning and related products and services	99
Serba Dinamik International Limited ^^	United Kingdom	Inspection, repair and maintenance of static equipment and structures, and related products and services	100
PT Kubic Gasco ("PTKG") **	Indonesia	Processing and supply of compressed natural gas	51
<u>Subsidiary of SDSB</u>			
Quantum Offshore Limited ^^	United Kingdom	Design, engineering and installation of auxiliary power generators and firefighting systems and equipment	100
Top Luxury Sdn. Bhd.	Malaysia	Dormant	100
<u>Subsidiary of SDIT</u>			
Telegistics Asia Sdn. Bhd.	Malaysia	Internet and mobile applications solutions	100
<u>Subsidiary of PTKG</u>			
PT Delta Conusa Gas **	Indonesia	Dormant	90
PT Muaro Jambi Energi **	Indonesia	Dormant	82

** Audited by firms of Chartered Accountants other than member firms of KPMG International

^^ The subsidiary is exempted from statutory audit as permitted by the authority in the relevant country

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

4. INVESTMENT IN SUBSIDIARIES - COMPANY (CONT'D)

Non-controlling interests in subsidiaries

The Group's subsidiaries that have material non-controlling interest ("NCI") are as follows:

2016	PT Serba Dinamik Indonesia	PT Kubic Gasco	SD Advance Engineering Sdn. Bhd.	Other individually immaterial subsidiaries	Total
NCI percentage of ownership interest and voting interest	25%	49%	49%		
Carrying amount of NCI	699,156	5,978,051	1,052,321	199,014	7,928,542
(Loss)/Profit allocated to NCI	(114,959)	(181,969)	61,385	(155,734)	(391,277)

Summarised financial information before intra-group elimination

At 2016

Non-current assets	5,870,913	20,055,093	52,026
Current assets	20,764,422	4,026,170	15,926,100
Non-current liabilities	(1,319,019)	(4,824,713)	–
Current liabilities	(22,519,692)	(7,056,446)	(13,830,533)

Net assets	2,796,624	12,200,104	2,147,593
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25.05.2016-31.12.2016

Revenue	11,228,867	92,184	8,976,581
(Loss)/Profit for the period	(459,836)	(371,366)	125,274
Total comprehensive (loss)/income	(459,836)	(371,366)	125,274

Cash flows from operating activities	(950,840)	(116,049)	(3,605)
Cash flows from investing activities	977,329	3,955,467	(2,000)
Cash flows from financing activities	678,785	(1,027,350)	–

Net increase/(decrease) in cash and cash equivalents	705,274	2,812,068	(5,605)
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5. INVESTMENT IN ASSOCIATES - GROUP

	2016 RM Group
Unquoted shares, at cost	12,396,538
Share of post-acquisition reserve	(176,538)
	12,220,000

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

5. INVESTMENT IN ASSOCIATES - GROUP (CONT'D)

The particulars of the associates are as follows:

Associate	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2016 %
Serba Dinamik International Qatar *	Qatar	Dormant	49
Adat Sanjung Sdn. Bhd.*	Malaysia	Investment holdings	30

* Audited by another firm of Chartered Accountants.

Reconciliation of net assets

	Adat Sanjung Sdn. Bhd. RM
As at 31 December 2016	
Group's share of net assets	—
Goodwill	12,220,000
Carrying amount in the statement of financial position	12,220,000

6. OTHER INVESTMENTS - GROUP

	2016 RM
<i>Non-current</i>	
Available-for-sale financial assets	
- quoted shares in Malaysia	106,090
- unit trust	200,345
	306,435
<i>Current</i>	
Loans and receivables	
- Fixed deposits placed with licensed banks with original maturities exceeding three months	52,445,755
<i>Representing items:</i>	
- market value of quoted shares (Note 24)	132,325
- fair value of unit trust (Note 24)	204,606

Fixed deposits are pledged for banking facilities granted to the subsidiaries (see Note 14).

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

7. INTANGIBLE ASSETS - GROUP

	Note	Goodwill RM	License and rights RM	Total RM
Cost				
At 25 May 2016		—	—	—
Acquisition through subsidiaries	27	3,831,875	4,249	3,836,124
At 31 December 2016		3,831,875	4,249	3,836,124

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating activities which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of this goodwill is allocated to a subsidiary, which hold a DNV Business Assurance Management System Certification ISO 9001:2008, which is valid for the design and manufacture of fire pumps and power generation systems to the offshore industry. It is based on its value in use, determined by future cash flows to be generated by the subsidiary.

8. DEFERRED TAXATION - GROUP

Deferred tax assets and liabilities are attributable to the following:

	Assets 2016 RM	Liabilities 2016 RM	Net 2016 RM
Property, plant and equipment	—	14,242,933	14,242,933
Post employment benefits	(702,966)	—	(702,966)
Others	—	112,000	112,000
Tax (assets)/liabilities	(702,966)	14,354,933	13,651,967

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

8. DEFERRED TAXATION - GROUP (CONT'D)

Movements in deferred tax during the period are as follows:

Group	At 24.5.2016 RM	Effect of acquisition of subsidiaries RM	Recognised in profit or loss RM	Effect of movement in exchange rate RM	At 31.12.2016 RM
Property, plant and equipment	–	13,555,540	687,393	–	14,242,933
Post employment benefits	–	(460,999)	(245,762)	3,795	(702,966)
Others	–	161,000	(49,000)	–	112,000
	–	13,255,541	392,631	3,795	13,651,967

(Note 20)

9. INVENTORIES - GROUP

	2016 RM
At cost	
Materials on site	476,433,106
Spare parts and consumables	9,916,288
	486,349,394
	25.5.2016 - 31.12.2016 RM
Recognised in profit or loss	
- inventories recognised as cost of sales/services	581,514,927

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

10. TRADE AND OTHER RECEIVABLES - GROUP

	2016 RM
Trade	
Trade receivables	657,115,398
Accrued billings	70,153,118
	727,268,516
Non-trade	
Other receivables	13,925,109
Total	741,193,625

10.1 Trade receivables denominated in foreign currencies comprise the following amounts.

	Group 2016 RM
United States Dollar ("USD")	431,539,264

11. DEPOSITS AND PREPAYMENTS

	Group 2016 RM	Company 2016 RM
Deposits	4,799,655	–
Prepayments for:		
- land	1,753,160	–
- subsidiary	1,204,255	–
- others	3,563,495	1,413,766
	6,520,910	1,413,766
	11,320,565	1,413,766

On 23 December 2016, the Group paid a deposit of RM2,000,000 as downpayment for acquisition of an investment. The acquisition is expected to be completed by the second quarter of financial year 2017.

On 1 January 2016, the Group entered into a sale of shares agreement for the acquisition of 100% equity interest in Supreme Vista Industries Sdn. Bhd. for a cash consideration of RM2,004,255. The acquisition is expected to be completed in the third quarter of 2017 following the payment of the balance sum, which is payable in instalments until the completion date. The completion date will be the date of final and full payment by the Group. Included in the prepayments is an amount of RM1,204,255 paid for this acquisition.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

11. DEPOSITS AND PREPAYMENT (CONT'D)

On 25 August 2016, the Company has obtained approval for purchase of an industrial land for consideration of RM11,533,950. Subsequent to the approval, the Company has paid RM 1,753,160 as prepayment for the said purchase. The success of the purchase is subject to the execution of Sale and Purchase Agreement with the vendor.

12. CASH AND CASH EQUIVALENTS

	Group 2016 RM	Company 2016 RM
Cash and bank balances	54,322,206	1
Deposits placed with licensed banks	133,030,762	–
	187,352,968	1

12.1 Term deposits are pledged for banking facilities granted to the Group (see Note 14).

12.2 Cash and bank balances include the following balances denominated in foreign currency:

	2016 RM
USD	38,234,083

12.3 Included in the term deposits of the Group is an amount of RM107,374,612 which bears interest ranging from 3.03% to 3.06% per annum. The remaining term deposits pledged are placed in Islamic Structured deposits/investment with tenor at least 5 years maintained with a licensed bank. The principal and profit earned would not be released back to the Group but included in the Islamic Structured deposits/investment.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

13. CAPITAL AND RESERVES

13.1 Share capital

	Group and Company Amount 2016 RM	Number of shares 2016
<i>Ordinary shares of RM0.50 each</i>		
Authorised		
At date of incorporation	400,000	800,000
Created during the financial period	749,600,000	1,499,200,000
Closing balance	750,000,000	1,500,000,000
Issued and fully paid		
At date of incorporation	1	2
Issued during the financial period	531,799,999	1,063,599,998
Closing balance	531,800,000	1,063,600,000

The Company was incorporated with an authorised share capital of RM400,000 comprising 800,000 ordinary shares of RM0.50 each. Two ordinary shares of RM0.50 each were issued as subscribe share at par for cash upon incorporation.

The Company created 1,499,200,000 new ordinary shares of RM0.50 each during the financial period, increasing its authorised share capital from RM400,000 to RM750,000,000. On 25 May 2016, the Company issued 1,063,599,998 ordinary shares of RM0.50 each as purchase consideration for the acquisition of entire issued and paid-up share capital of Serba Dinamik Group Berhad.

13.2 Merger deficit

Pursuant to the restructuring in relation to the initial public offering, Serba Dinamik Holdings Berhad has acquired the shares in Serba Dinamik Group Berhad for a purchase consideration of RM531,799,999. The difference, net, of tax between the carrying value and acquisition consideration was treated as merger deficit.

13.3 Other reserves

	Note	Group 2016 RM
Foreign currency translation reserve	13.3.1	79,688,013
Statutory reserve	13.3.2	263,420
Capital redemption reserve	13.3.3	36,000,000
Capital gain on equity conversion		8,994,388
		124,945,821

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

13. CAPITAL AND RESERVES (CONT'D)

13.3 Other reserves (Cont'd)

13.3.1 Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

13.3.2 Statutory reserve

In accordance with the provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2012 in an indirect subsidiary's Memorandum and Articles of Association, an amount equivalent to 10% of the indirect subsidiary's net profit before appropriation is required to be transferred to a non-distributable reserve account until such time as a minimum of 50% of the share capital is set aside.

13.3.3 Capital redemption reserve

Capital redemption reserve represents redeemable preference shares redeemed by a subsidiary for which amounts equivalent to the nominal value of such shares are transferred from retained earnings.

14. LOANS AND BORROWINGS - GROUP

	2016 RM
Non-current	
Term loans (Islamic) - secured	5,919,127
Term loans - secured	3,352,356
Finance lease liabilities - secured	6,957,714
	16,229,197
Current	
Bank overdrafts (Islamic) - secured	5,074,265
Bank overdrafts - secured	5,516,915
Bankers' acceptances - secured	300,000
Term loans (Islamic) - secured	1,955,320
Term loans - secured	1,550,254
Revolving credits (Islamic) - secured	529,168,221
Revolving credits - secured	77,088,488
Finance lease liabilities - secured	2,778,354
	623,431,817
Total	639,661,014

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

14. LOANS AND BORROWINGS (CONT'D)

(i) Security

The bank overdrafts, bankers' acceptances and revolving credits facilities of the Group are secured by the following:

- (a) legal charges over on leasehold land and certain buildings of the Group (see Note 3.2).
- (b) secured by the facility agreement and term deposits (see Note 6 and Note 12).

The term loans of the Group are secured by the following:

- (a) General and supplemental facility agreement.
- (b) First and second legal charges over leasehold land and certain buildings of the Group (see Note 3.2).
- (c) Legal charges over plant and machinery as well as tools and equipment of the Group (see Note 3.2).
- (d) Legal charges over assets belong to the Directors of the Company.
- (e) Corporate guarantee from the Company.

Finance lease liabilities of the Group are secured on the respective finance lease assets (see Note 3.2).

The revolving credits (Islamic) of the Group are secured by the following:-

- (a) secured by term and fixed deposits (see Notes 6 and 12);
- (b) corporate guarantee from the Company.

(ii) Significant covenants on loans and borrowings

The Group is required to maintain a gearing ratio not exceeding 2.00 times in respect of the banking facilities granted by five licensed banks to the Group. The total outstanding borrowings of the Group with the said banks as at 31 December 2016 are RM315,045,975. The Group has not breached the covenants.

In addition, a subsidiary of the Company is required to maintain a ratio between the amount due from subsidiaries and associate as well as amount owing to subsidiaries and associate of not more than 1.0 time for the Islamic Treasury Facilities secured during the period which has been complied with.

The Islamic term loans, bank overdrafts, and revolving credits facilities of RM7,874,447, RM5,074,265 and RM529,168,221 respectively are Islamic facilities under Bai' Inah contract.

(iii) Finance lease liabilities

Finance lease liabilities are payable as follows:

	← 2016 →		
	Minimum lease payments RM	Interest RM	Principal RM
Group			
Less than one year	3,403,225	624,871	2,778,354
Between one and two years	3,364,348	434,010	2,930,338
Between two and five years	4,171,602	276,316	3,895,286
More than five years	148,228	16,138	132,090
	11,087,403	1,351,335	9,736,068

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

15. EMPLOYMENT BENEFITS - GROUP

In accordance with Indonesian Labor Law No.13/2003, the Group provides post employment benefits to the eligible employees of an indirect subsidiary upon terminating their employment or upon attaining retirement age. The benefits payable are determined based on employees length of services and compensation at termination or retirement.

The Group operates the post employment benefits plan for eligible employees of an indirect subsidiary who are Indonesians with age above 20 years and continuous service of at least a year from date of hire. The benefits payable on retirement are based on length of service, input factor and base pay. The retirement age is 55 for employees of the subsidiary. The post employment benefit plan exposes the Group to actuarial risks such as longevity risk, financial risks such as change in discount rates and demographic risk such as turnover rate not being borne out.

The following table shows a reconciliation from the opening balance to the closing balance for defined benefit liability and its components.

	RM
Balance at 25 May 2016	–
Acquisition through subsidiaries	396,672
Included in profit or loss (Note 18)	
Current service cost	95,128
Balance at 31 December 2016	491,800

Actuarial assumptions

Principal actuarial assumptions at the end of the reporting date

	2016
Average years of service of employees	2.45 years
Annual discount rate	9% p.a.
Salary increment rate	7% p.a.
Normal pension rate	55 years
Mortality rate	Table Mortality Indonesia (TMI)

Sensitivity analysis

There is no sensitivity analysis performed as any change will be insignificant to the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

16. TRADE AND OTHER PAYABLES

	Group 2016 RM	Company 2016 RM
Trade payables	442,814,205	–
Other payables	58,194,668	119,174
Amount due to subsidiary (Note 16.1)	–	1,561,352
Total	501,008,873	1,680,526

16.1 Amount due to subsidiary is interest free, unsecured and repayable on demand.

16.2 Trade and other payables denominated in foreign currencies include the following amounts:

	Group 2016 RM
USD	259,974,081

17. REVENUE - GROUP

	25.05.2016 - 31.12.2016 RM
Operation and maintenance	1,252,879,906
Engineering, procurement, construction and commissioning	152,368,276
Others	3,308,121
	1,408,556,303

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

18. RESULTS FROM OPERATING ACTIVITIES

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Results from operating activities are arrived at after charging:		
Auditors remuneration		
- Audit fees		
- KPMG Malaysia	214,000	60,000
- Other auditors	188,818	-
- Non-audit fees		
- KPMG Malaysia	1,119,000	-
- Affiliate of KPMG Malaysia	41,000	-
Depreciation of property, plant and equipment (Note 3)	32,951,811	-
Foreign exchange loss		
- realised	1,512,357	-
- unrealised	229,587	-
Personnel expenses (including key management personnel):		
- contributions to state plans	1,227,226	-
- wages, salaries and others	27,804,281	-
Property, plant and equipment written off	16,205,422	-
Rental expenses	1,530,678	-
Hiring and chartering of equipment	5,103,293	-
and after crediting:		
Employment benefits (Note 15)	95,128	-
Rental income	652,961	-
Foreign exchange gain		
- unrealised	664,408	-

19. FINANCE INCOME AND COSTS - GROUP

	25.05.2016 - 31.12.2016 RM
Interest cost and profit	
Interest cost and profit of financial liabilities that are not at fair value through profit or loss:	
- finance leases	688,777
- term loans, revolving credits and bankers' acceptances	9,477,011
- bank overdrafts	151,923
- trade loan	8,211,729
- other finance costs	651,743
- overdue, late payment and trade finance cost	609,044
Recognised in profit or loss	19,790,227

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

19. FINANCE INCOME AND COSTS - GROUP (CONT'D)

25.05.2016 -
31.12.2016
RM

Interest income

Interest income of financial assets that are
not at fair value through profit or loss:
- term deposits

2,277,715

Recognised in profit or loss

2,277,715

20. TAX EXPENSE

Recognised in profit or loss

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
--	---	--

Current tax expense

Malaysia - current period
- prior period
Overseas - current period

15,244,985	-
(334,937)	-
(138,635)	-

14,771,413 -

Deferred tax expense (Note 8)

- current period
- prior period

(214,536)	-
607,167	-

392,631 -

15,164,044 -

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

20. TAX EXPENSE (CONT'D)

Reconciliation of tax expense

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Profit/(Loss) after tax	151,439,943	(266,760)
Total tax expense	15,164,044	–
Profit excluding tax	166,603,987	(266,760)
Income tax calculated using Malaysian tax rate of 24% ^	39,985,000	(64,022)
Tax exempt income under Labuan Business Activity Tax *	(32,030,000)	–
Effect of tax rate in foreign jurisdictions	(998,186)	–
Non-deductible expenses	9,166,000	64,022
Profit of foreign source not subject to Malaysian tax	(1,231,000)	–
	14,891,814	–
Under provision in prior period	272,230	–
Total tax expense	15,164,044	–

^ In the Malaysian Budget 2014, it was announced that corporate income tax rate will be reduced to 24% for period of assessment 2016 ("YA 2016") onwards. Consequently, any temporary differences expected to be reversed in YA 2016 onwards are measured using this rate.

* Under the preferential tax treatment given to Labuan entities incorporated or register under the Labuan Companies Act 1990, a subsidiary has qualified and elected to pay tax of RM20,000 per annum.

21. COMPENSATIONS TO KEY MANAGEMENT PERSONNEL

Compensations paid/payable to key management personnel are as follows:

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Directors of the Company		
- fees	298,930	–
- remuneration	519,810	–
- other short-term employee benefits	180,839	–
	999,579	–
Other key management personnel		
- remuneration	201,894	–
- other short-term employee benefits	120,060	–
	321,954	–
	1,321,533	–

Other key management personnel comprise persons other than the Directors of group entities, having authority and responsibility for planning, directing and controlling the activities of the group entities either directly or indirectly.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

22. EARNINGS PER ORDINARY SHARE - GROUP

Basic and diluted earnings per ordinary share

The calculation of basic and diluted earnings per ordinary share at 31 December 2016 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group 25.05.2016 - 31.12.2016 RM
Profit attributable to ordinary shareholders	151,831,220
	2016 RM
Weighted average number of ordinary shares at the beginning/end of period	1,063,600,000
<i>Sen</i>	
Basic and diluted earnings per ordinary share	14.28

23. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. For each of the strategic business units, the Group Chief Executive Officer (being the Chief Operating Decision Maker), reviews internal management reports quarterly. The following describes the operations in each of the Group's reportable segments.

- O&M - Operations and maintenance which includes maintenance, repair and overhaul of rotating equipment, inspection, repair and maintenance of static equipment and structure, maintenance of process control and instrumentation, and other related services.
- EPCC - Engineering, procurement, construction and commissioning which includes, among others, piping system, process control and instrumentation, equipment installation, power generation plant, gas compression plant, auxiliary power generation and fire-fighting system, and other related services.
- Others - Technical training, ICT solutions, and supply of products and parts.

There are varying levels of integration between the reportable segments. Inter-segment pricing is determined on negotiated terms.

Performance is measured based on segment profit before tax as included in the internal management reports. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

Segment assets and liabilities

For decision making and resources allocation, the Group Chief Executive Officer reviews the statements of financial position of respective subsidiaries. As such, information on segment assets and segment liabilities is not presented.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

23. OPERATING SEGMENTS (CONT'D)

	O&M 2016 RM	EPCC 2016 RM	Others 2016 RM	Consolidated 2016 RM
Revenue from external customers	1,252,879,906	152,368,276	3,308,121	1,408,556,303
Segment profit	212,368,812	21,946,625	636,611	234,952,048
Unallocated costs				(50,835,549)
Finance income				2,277,715
Finance costs				(19,790,227)
Profit before tax				166,603,987
Income tax expense				(15,164,044)
Profit for the period				151,439,943
Included in the segment profit or loss				
Depreciation of property, plant and equipment	26,666,129	3,319,748	76,389	30,062,266
Unallocated depreciation of property, plant and equipment	—	—	—	2,889,545

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets.

	Group 25.05.2016 - 31.12.2016 RM
Revenue	
Malaysia	506,746,325
Qatar	260,248,879
Saudi Arabia	164,659,091
Indonesia	103,240,474
United Arab Emirates	113,636,253
Bahrain	146,723,446
Other countries	113,301,835
Consolidated	1,408,556,303

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

23. OPERATING SEGMENTS (CONT'D)

Geographical segments (Cont'd)

Non-current assets	2016 RM
Malaysia	477,491,689
Indonesia	25,849,648
Other countries	3,897,542
Consolidated	507,238,879

Major customers

The following are the major customers individually accounting for 10% or more of group revenue for current period:

	Revenue 25.05.2016 - 31.12.2016 RM	Segment
Customer A	219,551,047	O&M
Customer B	148,005,288	O&M
Customer C	144,161,353	O&M

24. FINANCIAL INSTRUMENTS

24.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (i) Loans and receivables ("L&R");
- (ii) Financial liabilities measured at amortised cost ("FL"); and
- (iii) Available for sale financial assets ("AFS").

<i>Financial assets/(liabilities)</i>	Carrying amount RM	L&R/ (FL) RM	AFS RM
2016			
Group			
Other investments	52,752,190	52,445,755	306,435
Trade and other receivables	741,193,625	741,193,625	—
Cash and cash equivalents	187,352,968	187,352,968	—
Trade and other payables	(501,008,873)	(501,008,873)	—
Loans and borrowings	(639,661,014)	(639,661,014)	—
Company			
Trade and other payables	(1,680,526)	(1,680,526)	—

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.2 Net gains and losses arising from financial instruments

The table below provides an analysis of financial instruments categorised as follows:

Group	25.05.2016 - 31.12.2016 RM
Net gains/(losses) on:	
Loans and receivables	2,277,715
Financial liabilities measured at amortised cost	(19,790,227)
	(17,512,512)

24.3 Financial risk management

The Group and the Company are exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk; and
- Market risk

(a) Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from trade customers. The Company's exposure to credit risk arises principally from loans and advances to subsidiaries and financial guarantees given to banks for credit facilities granted to subsidiaries.

Receivables from external parties

(i) Risk management objectives, policies and processes for managing the risk

The customers of the Group are principally involved in the oil and gas industry. The Group uses ageing analysis to monitor the credit quality of the receivables.

(ii) Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position. Cash and cash equivalents are only placed with licensed banks/institutions.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 120 days, which are deemed to have higher credit risk, are monitored individually.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.3 Financial risk management (Cont'd)

(a) Credit risk (Cont'd)

Receivables from external parties (Cont'd)

(ii) Exposure to credit risk, credit quality and collateral (Cont'd)

As at the end of the reporting period, there are no significant concentrations of credit risk other than the amount due from one counterparty of RM82,948,863.

The exposure of credit risk for receivables as at the end of the reporting period by geographic region is:

Group	2016 RM
Malaysia	208,364,827
Asia	67,775,087
Middle East	379,815,742
Europe	1,159,742
	<hr/>
	657,115,398

(iii) Impairment losses

The Group maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

Group	Gross RM	Impairment RM	Net RM
2016			
Not past due	628,899,341	—	628,899,341
Past due 0 - 30 days	12,014,110	—	12,014,110
Past due 31 - 120 days	13,248,864	—	13,248,864
Past due more than 120 days	2,953,083	—	2,953,083
	<hr/>		
	657,115,398	—	657,115,398

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.3 Financial risk management (Cont'd)

(a) Credit risk (Cont'd)

Other investments

(i) Risk management objectives, policies and processes for managing the risk

Investments are allowed only in liquid securities in licensed financial institutions.

(ii) Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the Group has only invested in domestic securities. The maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Other investments of the Group (see Note 6) are categorised as available for-sale financial assets. The Group does not have overdue investments that have not been impaired.

The investments are unsecured.

Inter-company balances

(i) Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to subsidiaries and monitors the results of the subsidiaries regularly. The subsidiaries have been reporting strong financial performance and are able to repay the loans and advances in due course.

(ii) Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.3 Financial risk management (Cont'd)

(a) Credit risk (Cont'd)

Financial guarantees

(i) *Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries.

(ii) *Exposure to credit risk, credit quality and collateral*

The maximum exposure to credit risk amounts to RM639,661,014 representing the outstanding banking facilities of the subsidiaries as at end of the reporting period.

As at the end of the reporting period, there was no indication that any subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

Risk management objectives, policies and processes for managing the risk

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.3 Financial risk management (Cont'd)

(b) Liquidity risk (Cont'd)

(i) Maturity analysis

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

31.12.2016	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Under 1 years RM	1-2 years RM	2-5 years RM	More than 5 years RM
Group							
Finance lease liabilities							
- secured	9,736,068	1.05 – 9.55	11,087,403	3,403,225	3,364,348	4,171,602	148,228
Bank overdrafts (Islamic)							
- secured	5,074,265	8.00 – 9.00	5,110,208	5,110,208	-	-	-
Bank overdrafts – secured	5,516,915	8.00 – 9.00	5,555,993	5,555,993	-	-	-
Revolving credits – secured	77,088,488	7.85 – 9.10	77,088,488	77,088,488	-	-	-
Term loans (Islamic) – secured	7,874,447	7.20 – 15.50	10,002,295	2,593,097	1,384,017	3,137,109	2,888,072
Term loans – secured	4,902,610	4.25 – 4.77	5,330,371	1,727,996	1,618,373	1,292,770	691,232
Bankers' acceptance – secured	300,000	3.50	302,625	302,625	-	-	-
Revolving credits (Islamic)							
- secured	529,168,221	3.00 – 9.10	529,168,221	529,168,221	-	-	-
Trade and other payables	501,008,873	-	501,008,873	501,008,873	-	-	-
	1,140,669,887		1,144,654,477	1,125,958,726	6,366,738	8,601,481	3,727,532
Company							
Trade and other payables	119,174	-	119,174	119,174	-	-	-
Financial guarantees *	-	-	539,736,000	539,736,000	-	-	-

* Being corporate guarantees granted for banking facilities of certain subsidiaries and associate [see Note 14], which will only be encashed in the event of the default by the subsidiaries and associates. These financial guarantees do not have an impact on group contractual cash flows.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.3 Financial risk management (Cont'd)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's financial position or cash flows.

Currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk is primarily US Dollar ("USD").

(i) Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the financial currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

Balance denominated in USD

	2016 RM
Group	
Trade receivables	1,850,374
Cash and cash equivalents	1,835,011
Trade payables	(2,659,510)
Net exposure in the statement of financial position	1,025,875

(ii) Currency risk sensitivity analysis

A 10% strengthening of the Ringgit Malaysia ("RM") against USD at the end of the reporting period would have decreased equity and post-tax profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remained constant.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.3 Financial risk management (Cont'd)

(c) Market risk (Cont'd)

Currency risk (Cont'd)

(ii) Currency risk sensitivity analysis (Cont'd)

	Profit or loss 25.05.2016 - 31.12.2016 RM
USD	
In Group	(77,967)

A 10% weakening of Ringgit Malaysia ("RM") against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Interest and profit rates risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest or profit rates. For the Islamic and conventional facilities respectively, the Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest or profit rates. The Group is also exposed to interest or profit rate risk on the term deposits placed with licensed banks. Investments in equity securities and short term receivables and payables are not significantly exposed to interest or profit rate risk.

(i) Risk management objectives, policies and processes for managing the risk

The Group monitors its exposure to changes in interest or profit rates on a regular basis. Borrowings are negotiated with a view to securing the best possible terms including rates of finance/interest, to the Group.

(ii) Exposure to interest or profit rate risk

The interest or profit rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2016 RM
Group	
Fixed rate instruments	
Financial assets	159,820,021
Financial liabilities	(20,327,248)
	139,493,119
Floating rate instruments	
Financial liabilities	(619,333,766)

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.3 Financial risk management (Cont'd)

(c) Market risk (Cont'd)

Interest or profit rate risk (Cont'd)

(iii) Interest or profit rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in Interest and profit rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points ("bp") in interest and profit rates at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Group	Profit or loss	
	100bp increase RM	100bp decrease RM
Floating rate instruments - 2016	(4,706,937)	4,706,937

Other price risk

Equity price risk arises from the Company's investments in equity securities.

(i) Risk management objectives, policies and processes for managing the risk

Management monitors the equity investments on a portfolio basis. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

There is no sensitivity analysis performed as any change will be insignificant to the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.4 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate fair values due to the relatively short term nature of these financial instruments.

The fair value of other investments is disclosed in Note 6, which is based on their quoted closing market prices and the net asset value of the unit trust at their reporting date.

The table below analyses non-current financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

2016	Fair value of financial instruments carried at fair value		Fair value of financial instruments not carried at fair value		Total fair value RM	Carrying amount RM
	Level 1 RM	Total RM	Level 3 RM	Total RM		
Group						
Financial assets						
Other investments	306,435	306,435	–	–	336,931	306,435
Financial liabilities						
Term loans (Islamic)	–	–	5,919,127	5,919,127	5,919,127	5,919,127
Term loans	–	–	3,352,356	3,352,356	3,352,356	3,352,356
Finance lease liabilities	–	–	6,957,714	6,957,714	6,957,714	6,957,714
	–	–	16,229,197	16,229,197	16,229,197	16,229,197

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

24. FINANCIAL INSTRUMENTS (CONT'D)

24.4 Fair value information (Cont'd)

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial period.

Level 3 fair value

Level 3 fair value is estimated using observable inputs for the financial assets and liabilities.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

Financial instruments not carried at fair value

Type	Description of valuation technique and input used
Term loans, finance lease liabilities and redeemable convertible preference share	Discounted cash flow using a rate based on the current market rate of borrowing of the respective Group entities at the reporting date.

25. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The Group's strategy, was to maintain the debt-to-equity ratio not exceeding 2.00 times. The debt-to-equity ratios at 31 December 2016, were as follows:

	Group 2016 RM
Total loans and borrowings (Note 14)	639,661,014
Less: Cash and cash equivalents (Note 12)	(187,352,968)
Less: Other investments (Note 6)	(52,445,755)
	<hr/> 399,862,291 <hr/>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

25. CAPITAL MANAGEMENT (CONT'D)

	Group 2016 RM
Total equity	817,142,487
Debt-to-equity ratios	0.49

There was no change in the Group's approach to capital management during the financial period.

The Group is also required to maintain a maximum debt-to-equity ratio of 2.00 to comply with bank covenants, failing which, the banks may call an event of default. The Group has not breached this covenant (see Note 14).

26. RELATED PARTIES

Identify of related parties

For the purposes of the financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group or the Company and the parties are subject to common control. Related party may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company either directly or indirectly and entity that provides key management personnel services to the Group. Key management personnel include all the Directors of the Group and the Company, and certain members of senior management of the Group and the Company.

The Group and the Company has related party relationships with its significant investors, subsidiaries, associate and key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

26. RELATED PARTIES (CONT'D)

Significant related party transactions

Significant related party transactions, other than compensations paid to key management personnel (see Note 21) and those disclosed elsewhere in the financial statements, are as follows:

Transactions with companies/corporations in which certain substantial shareholders have or are deemed to have substantial interests

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
<u>Nature of transaction</u>		
Contractor charges	2,000,000	–
Purchase of goods	622,312	–
Contract revenue	(61,065,612)	–

The balances with subsidiaries are disclosed in Notes 16 to the financial statements.

The above transactions are based on negotiated terms. All the outstanding balances are unsecured and expected to be settled in cash.

27. SIGNIFICANT EVENTS

On 25 May 2016, the shareholders of the Company entered into the Share Purchase Agreement with Serba Dinamik Group Berhad ("Serba Dinamik Group") for the purchase by the Company from the shareholders of the entire issued and paid-up share capital of Serba Dinamik Group, 73,978,860 ordinary shares of RM1.00 each, at a total consideration of RM531,799,999 to be satisfied by the issuance of a total of 1,063,599,998 ordinary shares of RM0.50 each in the Company to each of the shareholder. Since then, the Company became the holding company of Serba Dinamik Group.

The acquisition of shares forms part of the internal reorganisation of the Group and its group of companies in relation to the initial public offering of the ordinary shares in the Company and the proposed listing of the Company on the Main Market of Bursa Malaysia Securities Berhad.

In accordance with MFRS 3, Business Combinations, the acquisition was accounted for using the reverse acquisition method with the Company being the accounting acquirer and Serba Dinamik Group being the accounting acquiree.

The assets and liabilities of the Serba Dinamik Group are reflected at their respective carrying amounts. Any difference between the consideration paid and the share capital and the capital of the acquiree is reflected within equity as a "merger reserve".

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

27. SIGNIFICANT EVENTS (CONT'D)

A deficit in business combination arose as a result of the reverse acquisition as follows :

	RM
Purchase consideration	531,799,999
Less: Share capital of Serba Dinamik Group	(73,978,860)
Less: Share premium of Serba Dinamik Group	(23,111,598)
<hr/>	
Merger reserve	434,709,541
<hr/>	

The Company was listed on the Main Board of Bursa Malaysia Securities Berhad on 8 February 2017.

28. CAPITAL COMMITMENTS- GROUP

	2016 RM
Land	
Contracted but not provided for	9,780,790
<hr/>	

29. SUBSEQUENT EVENT

On 20 February 2017, the Group entered into a share purchase agreement for the acquisition of 40% equity interest in Konsortium Amanie JV Sdn. Bhd. for a cash consideration of RM34 million.

30. COMPARATIVE FIGURE

There are no comparative figures for the statement of profit or loss and comprehensive income, statement of financial position, statement of cash flows as well as the related disclosures as this is the Group and Company's first set of financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd)

31. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group 25.05.2016 - 31.12.2016 RM	Company 2.12.2015 - 31.12.2016 RM
Total retained earnings/accumulated losses of the Company and its subsidiaries		
- realized	641,750,557	(266,760)
- unrealized	(14,628,709)	-
	627,121,848	(266,760)
Less: Consolidation adjustments	(39,944,183)	-
Total retained earnings	587,177,665	(266,760)

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 101 to 161 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2016 and of their financial performance and cash flows for the financial period then ended.

In the opinion of the Directors, the information set out in note 31 on page 162 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah
Director

Dato' Awang Daud Bin Awang Putera
Director

Shah Alam,

Date: 12 April 2017

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, **Syed Nazim bin Syed Faisal**, the Officer primarily responsible for the financial management of Serba Dinamik Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 101 to 162 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovename **Syed Nazim bin Syed Faisal**, NRIC: **801112-08-5943** at Shah Alam in the State of Selangor Darul Ehsan on 12 April 2017.

Syed Nazim bin Syed Faisal

Before me:

INDEPENDENT AUDITORS' REPORT

to the member of Serba Dinamik Holdings Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Serba Dinamik Holdings Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income statement of changes in equity and the statements of cash flows of the Group and of the Company for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 101 to 161.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and cash flows for the period then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Basis for Opinion

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

Independence

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws"), the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current financial period. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition from provision of operation and maintenance project and engineering, procurement, construction, and commissioning project
Refer to Note 2 (n) (accounting policy) and Note 17 (financial disclosures).

The Key audit matter	How the matter was addressed in our audit
The Group's largest revenue stream related to provision of operation and maintenance. Majority of the customers are in oil and gas industry. Contracts of such services varies, each with different terms. This leads to complexity around the calculation and recognition of revenue and any accrued and deferred revenue.	<p>Our audit procedures included, amongst others:</p> <ol style="list-style-type: none"> i) We evaluated the controls designed and applied by the Group in the process of determining the revenue recognised in the financial statements. ii) We inspected all newly procured projects to contract agreement to determine whether, based on the contract terms and billing schedule as well as overall performance of services, the Group has appropriately accounted the contracts as in the revenue recognition. iii) We checked completeness and accuracy of revenue by inspecting job completion certificates and other relevant documents (i.e. timesheets, delivery order, etc.) whether the associated revenue was recognised in the correct period.

INDEPENDENT

AUDITORS' REPORT

(Cont'd)

2. Completeness and existence of materials on site

Refer to Note 2(g) (accounting policy) and Note 9 (financial disclosures)

The Key audit matter	How the matter was addressed in our audit
<p>Material on site makes up a significant portion of the Group's current assets. Coupled with the multi-location operation of the Group, the material on site is spread throughout different sites. As a result, it is harder for the Group to monitor their material at site.</p> <p>We focused on this area as a key audit matter due to its susceptibility to error based on the nature of the operation.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> i) We evaluated the design and implementation of controls related to inventories. ii) We attended inventory count to ascertain the accuracy of material on site's volume and its existence. iii) We vouched purchases and payments of inventories during the year to obtain corroborative evidence over existence of material on site.

We have determined that there is no key audit matter in the audit of the separate financial statement of the Company to communicate in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

(Cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standard on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with approved standards on auditing in Malaysia and International Standard on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or of the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT

AUDITORS' REPORT

(Cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 4 to the financial statements.

Other Reporting Responsibilities

The supplementary information set out in Note 31 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Nicholas Chia Wei Chit
Approval Number: 3102/03/18 (J)
Chartered Accountant

Kuching,

Date: 12 April 2017

ANALYSIS OF SHAREHOLDINGS

ANALYSIS BY SIZE OF HOLDINGS

AS AT 31/03/2017

Size Of Holdings	No. Of Holders	%	No.Of Shares	%
1 - 99	3	0.186	100	0.000
100 - 1,000	137	8.525	99,400	0.007
1,001 - 10,000	783	48.724	4,942,900	0.370
10,001 - 100,000	436	27.131	17,945,200	1.344
100,001 - 66,749,999 ^(*)	245	15.245	509,831,900	38.189
66,750,000 and above ^(**)	3	0.186	802,180,500	60.088
TOTAL	1,607	100.000	1,335,000,000	100.000

Remark : * - Less than 5% of issued shares
 ** - 5% And above of issued shares

INFORMATION ON SUBSTANTIAL HOLDERS' HOLDINGS

AS AT 31/03/2017

No.	Name	Country	Holdings	%
1.	MOHD ABDUL KARIM BIN ABDULLAH	Malaysia	349,288,100	26.163
2.	ABDUL KADIER SAHIB	Malaysia	276,544,900	20.714
3.	AWANG DAUD BIN AWANG PUTERA	Malaysia	176,347,500	13.209

INFORMATION ON DIRECTORS HOLDINGS

AS AT 31/03/2017

No.	Name	Country	Holdings	%
1.	* ABDUL KADIER SAHIB	Malaysia	276,544,900	20.714
2.	* AWANG DAUD BIN AWANG PUTERA	Malaysia	176,347,500	13.209
3.	HASMAN YUSRI BIN YUSOFF	Malaysia	0	0.000
4.	MOHAMED NOR BIN ABU BAKAR	Malaysia	0	0.000
5.	MOHD ABDUL KARIM BIN ABDULLAH	Malaysia	349,288,100	26.163
6.	SHARIFAH IRINA BINTI SYED AHMAD RADZI	Malaysia	0	0.000
7.	TENGKU DATO' SERI HASMUDDIN TENGKU OTHMAN	Malaysia	0	0.000
TOTAL			802,180,500	60.088

ANALYSIS OF SHAREHOLDINGS

(Cont'd)

THIRTY LARGEST SHAREHOLDERS AS AT 31 MARCH 2017

(without aggregating securities from different securities accounts belonging to the same registered holder)

No.	Name of Shareholders	No. of Shares	%
1	MOHD ABDUL KARIM BIN ABDULLAH	349,288,100	26.163
2	ABDUL KADIER SAHIB	276,544,900	20.714
3	AWANG DAUD BIN AWANG PUTERA	176,347,500	13.209
4	STATE FINANCIAL SECRETARY SARAWAK	60,000,000	4.494
5	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	36,326,700	2.721
6	CARTABAN NOMINEES (TEMPATAN) SDN BHD COPE OPPORTUNITIES 2 SDN BHD	35,934,300	2.691
7	CARTABAN NOMINEES (TEMPATAN) SDN BHD COPE-KPF OPPORTUNITIES 1 SDN BHD	27,686,200	2.073
8	AMSEC NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)	26,519,300	1.986
9	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD.	21,283,000	1.594
10	RHB NOMINEES (TEMPATAN) SDN BHD OSK CAPITAL SDN BHD FOR YAYASAN ISLAM TERENGGANU	20,000,000	1.498
11	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	13,697,000	1.025
12	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	13,430,700	1.006
13	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	12,838,300	0.961
14	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (CIMB EQUITIES)	10,375,600	0.777
15	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR CIMB ISLAMIC DALI EQUITY THEME FUND	10,131,000	0.758
16	LEMBAGA KEMAJUAN BINTULU	10,000,000	0.749
17	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LSF)	7,600,000	0.569
18	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (AM INV)	7,020,000	0.525
19	KOPERASI PERMODALAN FELDA MALAYSIA BERHAD	6,200,000	0.464
20	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LEEF)	6,200,000	0.464

ANALYSIS OF SHAREHOLDINGS

(Cont'd)

THIRTY LARGEST SHAREHOLDERS AS AT 31 MARCH 2017 (CONT'D)

(without aggregating securities from different securities accounts belonging to the same registered holder)

No.	Name of Shareholders	No. of Shares	%
21	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	5,000,000	0.374
22	TRUE VOX ASIA SDN BHD	4,538,400	0.339
23	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (CIMB-P 6939-404)	4,385,400	0.328
24	CITIGROUP NOMINEES (TEMPATAN) SDN BHD UNIVERSAL TRUSTEE (MALAYSIA) BERHAD FOR CIMB ISLAMIC SMALL CAP FUND	4,145,100	0.310
25	CITIGROUP NOMINEES (TEMPATAN) SDN BHD UNIVERSAL TRUSTEE (MALAYSIA) BERHAD FOR CIMB ISLAMIC DALI EQUITY FUND	4,042,200	0.302
26	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NAZIMAH BINTI SYED MAJID	4,000,000	0.299
27	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SYED NAZIM BIN SYED FAISAL	3,950,000	0.295
28	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DR)	3,800,000	0.284
29	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LPF)	3,504,800	0.262
30	CITIGROUP NOMINEES (TEMPATAN) SDN BHD UNIVERSAL TRUSTEE (MALAYSIA) BERHAD FOR CIMB-PRINCIPAL EQUITY FUND	3,253,300	0.243

NOTICE OF THE FIRST ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the First Annual General Meeting of the Company will be held at Auditorium Room, Level 3A, Connexion@Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Friday, 26 May 2017 at 9.00 a.m., to consider the following matters:

AGENDA

As Ordinary Business:

- | | | |
|----|--|---------------------|
| 1. | To receive the Audited Financial Statements for the financial period ended 31 December 2016 together with the Reports of the Directors and Auditors thereon. | |
| 2. | To re-elect the following Directors who are retiring by rotation pursuant to Article 107 of the Constitution of the Company and who being eligible have offered themselves for re-election: | |
| | (i) Tengku Dato' Seri Hasmuddin Tengku Othman | Resolution 1 |
| | (ii) Abdul Kadier Sahib | Resolution 2 |
| 3. | To approve the payment of Directors' fees and other emoluments of up to an amount not exceeding RM750,000 in respect of the financial period from 1 January 2017 until the conclusion of the next Annual General Meeting of the Company. | Resolution 3 |
| 4. | To re-appoint KPMG PLT as auditors of the Company and to authorise the Directors to fix their remuneration. | Resolution 4 |

As Special Business:

To consider and if thought fit, to pass the following as Ordinary Resolutions:

- | | | |
|----|--|---------------------|
| 5. | Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature | Resolution 5 |
| | <p>"THAT, approval be and is hereby given for the Proposed Shareholders' Mandate for the Company and/or its subsidiaries to enter into the categories of recurrent related party transactions of a revenue or trading nature falling within the nature of transactions set out in Section 2.2 under Part A of the Circular to Shareholders dated 28 April 2017 ("the Circular"), with the related parties falling within the classes of persons set out in Section 2.2 under Part A of the Circular, such transactions are necessary for the Company and/or its subsidiaries' day-to-day operations and which are carried out in the ordinary course of business, on terms which are not more favorable to the related parties than those generally available to the public and are not detriment of the minority shareholders.</p> | |

NOTICE OF THE FIRST ANNUAL GENERAL MEETING

(Cont'd)

THAT the authority conferred by such mandate shall commence upon the passing of this resolution and continue to be in force until:

- (i) the conclusion of the next Annual General Meeting (“AGM”) of the Company, at which time it will lapse, unless by a resolution passed at the next AGM, the authority is renewed;
- (ii) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Companies Act 2016 (“Act”) (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (iii) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier.

(Please refer to Explanatory Note. 3 below)

6. Authority to Allot and Issue Shares

Resolution 6

“**THAT**, subject to the Companies Act 2016 (“the Act”), the Constitution of the Company and the approvals of the relevant governmental / regulatory authorities, where such approval is necessary, the Directors be and are hereby empowered pursuant to Section 75 and 76 of the Act, to issue shares in the Company, from time to time and upon such terms and conditions and for such purposes the Directors may deem fit and expedient in the interest of the Company, provided that the aggregate number of shares issued pursuant to this Resolution does not exceed 10% of the total number of issued shares of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued from Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company.”

(Please refer to Explanatory Note. 4 below)

To consider and if thought fit, to pass the following as Special Resolution:

7. Proposed Amendments to the Company's Constitution

Resolution 7

“**THAT** the proposed amendments to the Company's Constitution as set out in Part B of the Circular to Shareholders dated 28 April 2017 be and is hereby approved **AND** **THAT** the Directors of the Company be and are hereby authorised to do all things and acts necessary to effect the amendments to the Company's Constitution”

(Please refer to Explanatory Note. 5 below)

NOTICE OF THE FIRST ANNUAL GENERAL MEETING

(Cont'd)

8. To transact any other business of the Company of which due notice shall have been given.

By Order of the Board

MUHAMMAD HAFIZ BIN OTHMAN (MIA 37218)
AZLIN AZLINA BINTI BORHAN NORDIN (LS 0008712)
Company Secretaries

Kuala Lumpur
Dated: 28 April 2017

Notes:

1. Appointment of Proxy

- (a) A Member of the Company who is entitled to attend and vote at the meeting shall be entitled to appoint any person as his proxy to attend and vote instead of him.
- (b) A Member of the Company who is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991 ("SICDA") may appoint one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- (c) A Member of the Company who is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
- (d) Where an exempt authorized nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
- (e) A proxy may but need not be a Member of the Company. A proxy appointed to attend and vote shall have the same rights as the Member to speak at the meeting.
- (f) The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under its common seal or the hand of its officer or its duly authorised attorney.
- (g) The instrument of proxy must be deposited at the Share Registrar's Office situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur at least forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.
- (h) For the purpose of determining a Member who shall be entitled to attend and vote at the meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company a Record of Depositors as at 19 May 2017 and only a depositor whose name appears on the Record of Depositors shall be entitled to attend the meeting or appoint proxies to attend and vote in his stead.

NOTICE OF THE FIRST ANNUAL GENERAL MEETING

(Cont'd)

2. Agenda Item No. 1

This item of the Agenda is meant for discussion only. The provisions of Section 340(1)(a) of the Companies Act 2016 require that the audited financial statements and the Reports of the Directors and Auditors thereon be laid before the Company at its Annual General Meeting. As such this Agenda item is not a business which requires a resolution to be put to vote by shareholders.

EXPLANATORY NOTES ON SPECIAL BUSINESS:-

3. Recurrent Related Party Transactions of a Revenue or Trading Nature

The proposed Resolution 5 is to seek of Shareholders' Mandate to allow the Company and/or its subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature and to enable the Company to comply with Paragraph 10.09, Part E of the Listing Requirement for the Main Market of Bursa Malaysia Securities Berhad. The mandate will take effect from the date of the passing of the Ordinary Resolution until the next Annual General Meeting of the Company. For further information, please refer to the Circular to Shareholders dated 28 April 2017 accompanying the Company's Annual Report for the financial period ended 31 December 2016.

4. Authority to Allot and Issue Shares

The proposed Resolution 6, if passed, will provide flexibility to the Directors to undertake fund raising activities, including but not limited to placement of shares for the funding of the Company's future investment projects, working capital and / or acquisitions, by the issuance of shares in the Company to such persons at any time, as the Directors may deem fit, without having to convene a general meeting.

5. Proposed Amendments to the Company's Constitution

The proposed Resolution 7, if passed, will bring the Company's Constitution in line with the enforcement of the Companies Act 2016 and to enhance administrative efficiency. The proposed new Constitution is set out in Part B of the Circular to Shareholders dated 28 April 2017.

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**SERBA DINAMIK HOLDINGS BERHAD**

(Company No. 1167905 - P)
(Incorporated in Malaysia)

I/We, NRIC No./Passport No./Company No.

of

being a member/members of **SERBA DINAMIK HOLDINGS BERHAD**, do hereby appoint

..... (NRIC No.) or failing him/her

..... (NRIC No.) or failing

him/her the Chairman of the Meeting as my/our proxy to vote for me/us and on our behalf at the First Annual General Meeting of the Company to be held at Auditorium Room, Level 3A, Connexion@Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Friday, 26 May 2017 at 9.00 a.m. and at any adjournment thereof.

My/our proxy is to vote as indicated below:

No.	Resolutions	FOR	AGAINST
Ordinary Resolutions			
1.	To re-elect Tengku Dato' Seri Hasmuiddin Tengku Othman as Director of the Company.		
2.	To re-elect Hj. Abdul Kadier Bin Sahib as Director of the Company.		
3.	To approve the payment of Directors' fees and other emoluments of up to an amount not exceeding RM750,000 in respect of the financial period from 1 January 2017 until the conclusion of the next Annual General Meeting of the Company.		
4.	To re-appoint KPMG PLT as auditors of the Company and to authorise the Directors to fix their remuneration.		
5.	Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		
6.	Authority to Allot and Issue Shares		
Special Resolution			
7.	Proposed Amendment to the Company's Constitution.		

Please indicate with an "X" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he thinks fit.

Dated this day of2017

No. of shares held	CDS Account No.

.....
Signature of Shareholder

Notes:

- A Member of the Company who is entitled to attend and vote at the meeting shall be entitled to appoint any person as his proxy to attend and vote instead of him.
- A Member of the Company who is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991 ("SICDA") may appoint one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- A Member of the Company who is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
- Where an exempt authorized nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
- A proxy may but need not be a Member of the Company. A proxy appointed to attend and vote shall have the same rights as the Member to speak at the meeting.
- The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under its common seal or the hand of its officer or its duly authorised attorney.
- The instrument of proxy must be deposited at the Share Registrar's Office situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur at least forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.
- For the purpose of determining a Member who shall be entitled to attend and vote at the meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company a Record of Depositors as at 19 May 2017 and only a depositor whose name appears on the Record of Depositors shall be entitled to attend the meeting or appoint proxies to attend and vote in his stead.

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The Share Registrar
TRICOR INVESTOR & ISSUING HOUSE SERVICES SDN BHD (11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8 Jalan Kerinchi
59200 Kuala Lumpur
Malaysia

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SERBA DINAMIK HOLDINGS BERHAD

(Company No.: 1167905-P)

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