Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

Principal activities

The principal activity of the Company is the provision of finance for development projects.

The principal activities and other information of the subsidiaries are stated in Note 23 to the financial statements.

Results

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Profit net of tax</td>
<td>366,780</td>
<td>144,440</td>
</tr>
<tr>
<td>Profit attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner of the Company</td>
<td>366,780</td>
<td>144,440</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>366,780</td>
<td>144,440</td>
</tr>
</tbody>
</table>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in Note 23 and Note 43 to the financial statements.

Dividends

The amounts of dividends paid by the Company since 31 December 2015 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>In respect of the financial year ended 31 December 2016:</td>
<td></td>
</tr>
<tr>
<td>First interim tax exempt dividend of 2.95%, on 550,000,000 ordinary shares, declared on 30 September 2016 and paid on 30 September 2016</td>
<td>16,234</td>
</tr>
<tr>
<td>Second interim tax exempt dividend of 9.78%, on 550,000,000 ordinary shares, declared on 20 December 2016 and paid on 29 December 2016</td>
<td>53,766</td>
</tr>
<tr>
<td>Third interim tax exempt dividend of 0.02% on 562,000,000 ordinary shares, declared on 30 December 2016 and paid on 30 December 2016</td>
<td>100</td>
</tr>
</tbody>
</table>

Total                                                70,100
Directors’ report

Directors

The names of the directors of the Company in office since the beginning of the financial year to the date of this report are:

Datuk Siau Wui Kee
Datuk Lim Siong Eng
Datuk Kevin K. How
Datuk Yusoff @ Hunter Bin Mohamed Kasim (Resigned on 31 July 2016)
Datuk Pengiran Hassanel Bin Pg Mohd Tahir
Petrus Gimbad

Directors’ benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 12 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Directors’ interests

None of the directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

Issue of shares

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM550,000,000 to RM562,000,000 by the allotment of 12,000,000 ordinary shares of RM1 each at par for cash.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.
Directors' report

Holding entities

The Company is a wholly-owned subsidiary of the SDB Corporation Sdn. Bhd., a company incorporated in Malaysia. SDB Corporation Sdn. Bhd. is a wholly-owned subsidiary of Sabah Development Berhad, a company incorporated in Malaysia, which is wholly-owned by the State Government of Sabah.

Other statutory information

(a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

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

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
Directors’ report

Other statutory information (continued)

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

Auditors and auditors’ remunerations

The auditors, Ernst & Young, have expressed their willingness to continue in office. Auditors’ remunerations are disclosed in Note 10 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 22 Jun 2017

Datuk Lim Siang Eng

Datuk Kevin K. How
Statement by directors
Pursuant to Section 251(2) of the Companies Act, 2016

We, Datuk Lim Siong Eng and Datuk Kevin K. How, being two of the directors of Sabah Development Bank Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 10 to 122 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 year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board in accordance with a resolution of the directors dated 2 JUN 2017

Datuk Lim Siong Eng

Datuk Kevin K. How

Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, Datuk Lim Siong Eng, being the director primarily responsible for the financial management of Sabah Development Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 10 to 122 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Datuk Lim Siong Eng at Kota Kinabalu in the State of Sabah on 2 JUN 2017

Datuk Lim Siong Eng

Before me,
34638-W

Independent auditors' report to the member of Sabah Development Bank Berhad
(Incorporated in Malaysia)

Opinion

We have audited the financial statements of Sabah Development Bank Berhad, which comprise statements of financial position as at 31 December 2016 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 10 to 122.

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 year 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 conducted 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 report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

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") and 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.

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 Directors' Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.
Independent auditors' report to the member of Sabah Development Bank Berhad (continued)

Information other than the financial statements and auditors' report thereon (continued)

Our opinion on the financial statements of the Group and of the Company does not cover the other information 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 other information and, in doing so, consider whether the other information 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 this other information, 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, International 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 Group's and the Company's ability to continue as a going concern, 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 or the Company or to cease operations, or have no realistic alternative but to do so.

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 Standards 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.
Independent auditors' report to the member of
Sabah Development Bank Berhad (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and
International Standards on Auditing, we exercise professional judgement 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 of 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 the Group's and the Company's internal
  control.

- 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 Group's or the
  Company's ability 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 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 achieves fair presentation.

- 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 to the member of Sabah Development Bank Berhad (continued)

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.

Other matters

This report is made solely to the member 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.

Ernst & Young
AF: 0039
Chartered Accountants

Kwan Bitt Jing @ Winnie Kwan
3257/05/18(J)
Chartered Accountant

Kota Kinabalu, Malaysia
22 June 2017