

## SCOMI ENGINEERING BHD (111633-M)

### PART A: EXPLANATORY NOTES AS PER MFRS 134

#### A1. Basis of Preparation of Interim Financial Reports

The interim financial statements are prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and should be read in conjunction with the Company's annual audited financial statements for the year ended 31 March 2016 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

Within the context of these condensed consolidated financial statements, the Group comprises the Company and its subsidiaries as at end for the period ended 30 September 2016.

Except as described below, the same accounting policies and methods of computation are followed in the condensed consolidated financial statements as compared with the audited financial statements for the year ended 31 March 2016.

As of 1 April 2016, the following MFRS, amendments and interpretations were issued by the Malaysian Accounting Standards Board but are not yet effective and have not been adopted by the Group:

#### Effective for annual periods commencing on or after 1 January 2017

|                        |   |
|------------------------|---|
| Amendments to MFRS 107 | Statement of Cash Flows – Disclosure Initiative                         |
| Amendments to MFRS 112 | Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses |

#### Effective for annual periods commencing on or after 1 January 2018

|                       |                                       |
|-----------------------|---------------------------------------|
| MFRS 9                | Financial Instruments (2014)          |
| MFRS 15               | Revenue from Contracts with Customers |
| Amendments to MFRS 15 | Revenue from Contracts with Customers |

#### Effective for annual periods commencing on or after 1 January 2019

|         |        |
|---------|--------|
| MFRS 16 | Leases |
|---------|--------|

#### Effective for annual periods commencing on a date yet to be confirmed

|                       |  |
|-----------------------|--|
| Amendments on MFRS 10 | Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
|-----------------------|--|

**A2. Qualification of Financial Statements**

The preceding year annual audited financial statements were not subject to any qualification.

**A3. Seasonal or Cyclical Factors**

The Group's results were not materially affected by any major seasonal or cyclical factors.

**A4. Unusual and Extraordinary Items**

There were no unusual and/or extraordinary items affecting assets, liabilities, equity, net income or cashflows during the period under review.

**A5. Material Changes in Estimates**

The Group makes assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date including impairment of intangible assets, depreciation on property, plant and equipment, deferred tax assets that could arise from unused tax losses and unabsorbed capital allowances, assessment of penalties and indirect taxes payable, construction contracts profits and capitalised development expenditure.

There were no material changes in estimates reported in the period under review.

**A6. Issuance and Repayment of Debt and Equity Securities**

There were no issuances, cancellations, share buy-backs, resale of shares bought back and repayment of debt and equity securities by the Company during the period under review.

**A7. Dividends Paid**

No dividends were paid during the period under review.

**A8. Segmental Information****Current Quarter as compared to Preceding Year Corresponding Quarter**

|   | <b>3-mths ended</b> |                    | <b>YTD 6-mths ended</b> |                    |
|---|---------------------|--------------------|-------------------------|--------------------|
|   | 30.09.16<br>RM'000  | 30.09.15<br>RM'000 | 30.09.16<br>RM'000      | 30.09.15<br>RM'000 |
| <b>Segment Revenue</b>                        |                     |                    |                         |                    |
| Rail  | 21,739              | 30,112             | 42,074                  | 65,869             |
| Commercial Vehicles                           | 8,829               | 13,195             | 21,466                  | 23,530             |
| <b>Revenue</b>                                | <b>30,568</b>       | <b>43,307</b>      | <b>63,540</b>           | <b>89,399</b>      |
| <b>Segment Results</b>                        |                     |                    |                         |                    |
| Rail  | 558                 | 2,443              | 4,776                   | 7,704              |
| Commercial Vehicles                           | (417)               | (503)              | (2,458)                 | (2,547)            |
| Corporate expenses                            | (3,144)             | (34)               | (4,735)                 | (1,293)            |
| (Loss)/profit before taxation                 | (3,003)             | 1,906              | (2,417)                 | 3,864              |
| Tax credit/(expense)                          | 32                  | (109)              | (210)                   | (211)              |
| <b>(Loss)/profit for the financial period</b> | <b>(2,971)</b>      | <b>1,797</b>       | <b>(2,627)</b>          | <b>3,653</b>       |

**A9. Material Events Subsequent to the End of the Period**

There were no material events subsequent to the end of the period and year under review.

**A10. Contingent Liabilities**

There were no contingent liabilities for the Group as at 30 September 2016.

## A11. Capital and Operating Lease Commitments

- (a) The capital commitments not provided for in the financial statements are as follows:

|                                 | <b>30.09.16</b><br><b>RM'000</b> | <b>31.03.16</b><br><b>RM'000</b> |
|---------------------------------|----------------------------------|----------------------------------|
| Approved and contracted for     |                                  |                                  |
| - Property, plant and equipment | -                                | 111                              |
| - Development costs             | -                                | -                                |
|                                 | -                                | -                                |
| Approved but not contracted for |                                  |                                  |
| - Property, plant and equipment | -                                | -                                |
| - Development costs             | -                                | -                                |
|                                 | -                                | -                                |
| <b>Total</b>                    | <b>-</b>                         | <b>-</b>                         |

- (b) The Group has entered into non-cancellable operating lease agreement for property, plant and equipment. Commitments for future minimum lease payments are as follows:

|                          | <b>30.09.16</b><br><b>RM'000</b> | <b>31.03.16</b><br><b>RM'000</b> |
|--------------------------|----------------------------------|----------------------------------|
| Due within 1 year        | 835                              | 1,043                            |
| Due within 1 and 2 years | 1                                | 324                              |
| <b>Total</b>             | <b>836</b>                       | <b>1,367</b>                     |

## A12. Significant Related Party Transactions

The following are the Group's significant related party transactions:

|  | <b>3-mths</b><br><b>ended</b><br><b>30.09.16</b><br><b>RM'000</b> | <b>YTD</b><br><b>6-mths</b><br><b>ended</b><br><b>30.09.16</b><br><b>RM'000</b> |
|--|---|---|
| Transactions with a company connected to Directors                             |   |   |
| - Provision of airline ticketing services                                      | 15  | 15  |
| - Sharing of rental and office relocation costs with immediate holding company | 18  | 97  |

## **PART B: ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA**

### **B1. Review of Performance**

#### **Current quarter compared to corresponding quarter of the preceding year**

The Group recorded revenue of RM30.6 million for the current quarter as compared to RM43.3 million for the corresponding quarter in financial year 2016, declined by RM12.7 million due to lower revenue generated from both Rail & Commercial Vehicle segments.

The Group posted a loss after taxation for the current quarter of RM3.0 million as compared to profit after taxation of RM1.8 million for the corresponding quarter in financial year 2016. These were due to lower revenue and reduced unrealised foreign exchange gains arising from translation of accrued receivables for the Mumbai monorail project as a result of weakening of the INR against RM.

#### **(a) Rail segment**

Revenue for the current quarter is RM21.7 million, lower by RM8.4 million as compared to RM30.1 million for the corresponding quarter in financial year 2016. This was mainly due to lower value of work done and adjustment to revenue arising from further weakening of INR and BRL against RM based on forward rates on remaining works for both Mumbai and Brazil monorail project.

The segment posted a profit before taxation of RM0.6 million for the current quarter, as compared to RM2.4 million for the corresponding quarter in financial year 2016, lower by RM1.8 million.

These were mainly due to lower unrealised foreign exchange gains arising from translation of accrued receivables for the Mumbai monorail project due to weakening of INR against RM for the quarter compared to a higher exchange gain within the same quarter in financial year 2016.

This was mitigated by unrealised foreign exchange gains arising from translation of accrued receivables for the Brazil monorail project due to strengthening of BRL against RM for the quarter compared to a lower exchange gains within the same quarter in financial year 2016.

#### **(b) Commercial Vehicles segment**

Revenue for the current quarter is RM8.8 million, lower by RM4.4 million as compared to RM13.2 million for the corresponding quarter in financial year 2016. This was mainly due to lower sales generated in current quarter as a result of completion of chassis assembly during last quarter and completion of bus refurbishment works in financial year 2016.

The segment posted a loss before taxation for the current quarter of RM0.4 million, slightly lower than the loss before taxation recorded in the corresponding quarter in financial year 2016 of RM0.5 million.

The losses during the quarter were mainly due to substantial reduction in orders in Commercial Vehicles segment.

## **B2. Material Change in Profit Before Taxation as compared to preceding quarter**

The Group posted a loss before taxation for the current quarter of RM3.0 million as compared to profit before taxation of RM0.6 million for the preceding quarter.

These were mainly due to low activities in the Rail Segment for the current quarter.

## **B3. Prospects**

The Group continues its efforts to complete its current projects in India and Malaysia and is progressing well with the additional scopes awarded for the Line 17 Monorail Project in Brazil. There is added focus to pursue new businesses in various strategic markets such as China, Thailand and Turkey.

The existing projects continue to be faced with various challenges that affect the operations and financial performance. However, various mitigative actions continue to be executed to alleviate the effects.

Scomi Transit Project Sdn Bhd ("**STP**"), a wholly-owned subsidiary of Scomi Engineering Berhad, is currently in litigation relating to the termination of the Kuala Lumpur Monorail Fleet Expansion Project. Concurrently STP continues to pursue its extension of time and variation order claims and all other claims in line with its entitlements. Unfavorable outcome of these will potentially have an adverse impact on the Group.

In view of these, the Group remains cautious of its performance for the financial year.

## **B4. Profit Forecast or Profit Guarantee**

The Group has not provided any profit forecast or profit guarantee.

**B5. Tax (Credit)/Expense**

|                            | <b>3-mths ended</b> |                    | <b>YTD 6-mths ended</b> |                    |
|----------------------------|---------------------|--------------------|-------------------------|--------------------|
|                            | 30.09.16<br>RM'000  | 30.09.15<br>RM'000 | 30.09.16<br>RM'000      | 30.09.15<br>RM'000 |
| Current period taxation    |                     |                    |                         |                    |
| Malaysian income tax       | (32)                | 109                | -                       | 211                |
| Foreign tax                | -                   | -                  | -                       | -                  |
|                            | <u>(32)</u>         | <u>109</u>         | <u>-</u>                | <u>211</u>         |
| Prior period taxation      |                     |                    |                         |                    |
| Income tax under provided  | -                   | -                  | 210                     | -                  |
| Total tax (credit)/expense | <u>(32)</u>         | <u>109</u>         | <u>210</u>              | <u>211</u>         |

Income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the period. Taxation for the other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The effective tax rate of the Group for the current and previous corresponding quarters before adjustment in respect of prior period taxation were lower than the Malaysian statutory tax rate mainly due to income not subject to tax and income subject to lower tax rate in certain jurisdiction of the subsidiaries.

**B6. Status of Corporate Proposal**

There were no corporate proposals announced but not completed as at the date of issue of this report.

## B7. Group Borrowings

The group borrowings are as follows:

| <b>Secured</b>            | <b>30.09.16</b> | <b>31.03.16</b> |
|---------------------------|-----------------|-----------------|
|                           | <b>RM'000</b>   | <b>RM'000</b>   |
| <b>Non-Current</b>        |                 |                 |
| Term loan                 | 50,958          | 41,908          |
| Revolving credits         | 33,674          | 25,635          |
| Finance lease liabilities | 1,780           | 3,943           |
|                           | <u>86,412</u>   | <u>71,486</u>   |
| <b>Current</b>            |                 |                 |
| Bank overdrafts           | 70,178          | 71,909          |
| Term loans                | 116,245         | 113,423         |
| Trade facilities          | 587             | 760             |
| Finance lease liabilities | 3,702           | 3,295           |
| Revolving credits         | 208,613         | 208,944         |
|                           | <u>399,325</u>  | <u>398,331</u>  |
| <b>Total</b>              |                 |                 |
| Bank overdrafts           | 70,178          | 71,909          |
| Term loans                | 167,203         | 155,331         |
| Trade facilities          | 587             | 760             |
| Finance lease liabilities | 5,482           | 7,238           |
| Revolving credits         | 242,287         | 234,579         |
| Total borrowings          | <u>485,737</u>  | <u>469,817</u>  |

The group borrowings are denominated in the following currencies:

|                      | <b>30.09.16</b>          | <b>31.03.16</b>          |
|----------------------|--------------------------|--------------------------|
|                      | <b>RM'000</b>            | <b>RM'000</b>            |
|                      | <b><u>equivalent</u></b> | <b><u>equivalent</u></b> |
| Ringgit Malaysia     | 346,595                  | 350,553                  |
| United States Dollar | 84,632                   | 67,543                   |
| Indian Rupee         | 54,510                   | 51,721                   |
|                      | <u>485,737</u>           | <u>469,817</u>           |



## **B8. Changes in Material Litigation**

### **Claims by and Counter Claims against Molinari Rail AG and Molinari Rail Austria GmbH**

The following arbitrations have been instituted against Scomi Rail Bhd ("**SRB**") and the Company respectively:

- a) SIAC ARB 036/14/ALO between Molinari Rail Austria GmbH and Molinari Rail AG v SRB ("**SRB Arbitration**"); and
- b) SIAC ARB 090/16/JJ between Molinari Rail AG v SEB ("**SEB Arbitration**")

Arbitration hearing on the SRB Arbitration has commenced on 1 August 2016 and is ongoing. Molinari claims payment for services provided. SRB, the main recipient of the services, is defending the claims and making a counter claim arising out of the services performed by the claimants.

### **Notice of Termination by Prasarana Malaysia Bhd ("**PMB**") of the Kuala Lumpur Fleet Expansion Project ("**Project**") Contract dated 3 June 2011 (as supplemented by the First Supplemental Agreement dated 16 April 2014 and the Second Supplemental Contract dated 15 April 2015) (collectively, the "**Contract**")**

The Contract between PMB and Scomi Transit Project Sdn Bhd ("**STP**") relates to the Project which involves the upgrade of the stations and systems of the Kuala Lumpur Monorail and replaces the old trains with 12 new 4-car trains, 6 of which have been delivered with 5 in successful revenue service. 83% of the Project works have been completed by STP despite extensive delays beyond its control and ongoing disputes relating to contractor claims.

On 22 July 2016, the Kuala Lumpur High Court ("**Court**") dismissed STP's Originating Summons filed on 20 June 2016 to prevent the Notice of Termination issued by PMB on 9 June 2016 ("**Notice**") from taking effect until such time as the matter of the validity of the notice is finally determined in arbitration.

On 25 July 2016, STP filed a Notice of Appeal against the said dismissal which is scheduled for hearing on 16 August 2016 ("**Appeal Hearing**").

STP is currently challenging the purported termination of the Contract on the basis that, amongst other things, the Notice was bad in law, made in bad faith, unconscionable, contrived to relief STP as contractors for the Project and was a breach of the Contract.

Earlier, on 21 July 2016, STP filed a Notice of Arbitration for wrongful termination of the Contract by PMB and will continue pursuing its rights in arbitration.

On 26 July 2016, the Court did not extend the interim injunction granted on 22 July 2016. However, the Court made an order restraining PMB from appointing another contractor for the Project until the Appeal Hearing.

On 16 August 2016, the Court of Appeal had adjourned the Appeal Hearing to 20 September 2016. Subsequently, the Appeal Hearing was adjourned to 9 November 2016 and on that date it was adjourned again to 10 January 2017.

The Court also extended the earlier interim injunction order restraining PMB from appointing another contractor for the Project until 20 September 2016. Subsequently, the injunction order was extended to 9 November 2016 and on that date it was adjourned again to 10 January 2017.

STP will also continue to pursue its extension of time and variation order claims pursuant to the CIPAA and in arbitration and all other claims in line with its entitlements.

**B9. Dividend Declared**

No interim dividend has been declared for the current period under review.

**B10. Earnings/(Loss) Per Share**

The computations for basic (loss)/earnings per share are as follows:-

|  | <b>3-mths ended</b> |                    | <b>YTD 6-mths ended</b> |                    |
|--|---------------------|--------------------|-------------------------|--------------------|
|  | 30.09.16<br>RM'000  | 30.09.15<br>RM'000 | 30.09.16<br>RM'000      | 30.09.15<br>RM'000 |
| (Loss)/profit for the period                   | (2,971)             | 1,797              | (2,627)                 | 3,653              |
| Weighted average no. of shares in issue ('000) | 342,080             | 342,080            | 342,080                 | 342,080            |
| Basic (loss)/earnings per share (sen)          | <u>(0.87)</u>       | <u>0.53</u>        | <u>(0.77)</u>           | <u>1.07</u>        |

There was no dilution in the earnings per share of the Company as at 30 September 2016 as the market price of the Company's ordinary shares was anti-dilutive.

**B11. Current Status of the Matter Giving Rise to Qualification of Financial Statements**

The preceding annual audited financial statement was not qualified.

## B12. Additional Information

The following items are included in the statement of comprehensive income:-

|   | <b>3-mths ended</b> |          | <b>YTD 6-mths ended</b> |          |
|---|---------------------|----------|-------------------------|----------|
|   | 30.09.16            | 30.09.15 | 30.09.16                | 30.09.15 |
|   | RM'000              | RM'000   | RM'000                  | RM'000   |
| (Loss)/profit before taxation is stated after crediting:- |                     |          |                         |          |
| - Interest income   | 62                  | 442      | 246                     | 1,309    |
| (Loss)/profit before taxation is stated after charging:-  |                     |          |                         |          |
| - Interest expense  | 11,857              | 9,012    | 20,578                  | 17,555   |
| - Depreciation and amortisation                           | 1,638               | 2,372    | 3,844                   | 3,992    |
| - Unrealised foreign exchange gains                       | (8,116)             | (5,628)  | (15,092)                | (7,495)  |
| - Realised foreign exchange (gains)/losses                | (147)               | (327)    | 78                      | (1,042)  |

Note: The finance costs included within cost of sales amounted to RM7.7 million (2016: RM7.3 million) and RM15.0 million (2016: RM14.2 million) for current quarter and year to date respectively.

There were no provision for and write off of receivables and inventories, gain or loss on disposal of quoted or unquoted investments, impairment assets and exceptional items.

## B13. Retained Earnings /(Accumulated Losses)

|  | <b>As at</b>     |                  |
|--|------------------|------------------|
|  | <b>30.09.16</b>  | <b>31.03.16</b>  |
|  | <b>RM'000</b>    | <b>RM'000</b>    |
| Total accumulated (losses)/retained earnings of the Company and its subsidiaries : |                  |                  |
| Realised   | (274,415)        | (250,122)        |
| Unrealised   | 59,803           | 39,092           |
|  | <u>(214,612)</u> | <u>(211,030)</u> |
| Less : Consolidation adjustments   | 78,963           | 78,008           |
| Total Group accumulated losses   | <u>(135,649)</u> | <u>(133,022)</u> |

## B14. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 28 November 2016.