

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 31 December 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
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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
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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**

	3-mths ended		YTD 9-mths ended	
	31.12.16 RM'000	31.12.15 RM'000	31.12.16 RM'000	31.12.15 RM'000
Segment Revenue				
Rail	28,741	34,612	70,815	100,481
Commercial Vehicles	26,332	14,866	47,798	38,396
Revenue	55,073	49,478	118,613	138,877
Segment Results				
Rail	8,057	484	12,833	8,188
Commercial Vehicles	95	336	(2,363)	(2,211)
Corporate expenses	(5,092)	723	(9,827)	(570)
Profit before taxation	3,060	1,543	643	5,407
Tax expense	(31)	(307)	(241)	(518)
Profit for the financial period	3,029	1,236	402	4,889

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 31 December 2016.

A11. Capital and Operating Lease Commitments

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

	31.12.16 RM'000	31.03.16 RM'000
Approved and contracted for		
- Property, plant and equipment	-	111
- Development costs	-	-
	-	-
Approved but not contracted for		
- Property, plant and equipment	-	-
- Development costs	-	-
	-	-
Total	-	-

- (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:

	31.12.16 RM'000	31.03.16 RM'000
Due within 1 year	599	1,043
Due within 1 and 2 years	33	324
Due later than 2 years	43	-
Total	675	1,367

A12. Significant Related Party Transactions

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

	3-mths ended 31.12.16 RM'000	YTD 9-mths ended 31.12.16 RM'000
Transactions with a company connected to Directors		
- Provision of airline ticketing services	7	22
- Sharing of rental and office relocation costs with immediate holding company	90	187

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 RM55.1 million for the current quarter as compared to RM49.5 million for the corresponding quarter in financial year 2016, an increase of RM5.6 million due to higher revenue generated from Commercial Vehicle segments.

The Group posted a profit after taxation for the current quarter of RM3.0 million as compared to RM1.2 million for the corresponding quarter in financial year 2016. This was due to higher revenue and increased unrealised foreign exchange gains arising from translation of accrued receivables for the Mumbai monorail project as a result of strengthening of the INR against RM.

(a) Rail segment

Revenue for the current quarter is RM28.7 million, lower by RM5.9 million as compared to RM34.6 million for the corresponding quarter in financial year 2016. This was mainly due to lower value of work done for Kuala Lumpur Monorail Fleet Expansion Project.

Despite the lower revenue for the current quarter, the segment posted a profit before taxation of RM8.1 million for the current quarter, as compared to RM0.5 million for the corresponding quarter in financial year 2016, higher by RM7.6 million.

This was mainly due to lower losses arising from Mumbai Operation and Maintenance work and higher unrealised foreign exchange gains arising from translation of accrued receivables for the Mumbai and Brazil monorail project due to strengthening of INR and BRL against RM for the quarter in financial year 2016.

(b) Commercial Vehicles segment

Revenue for the current quarter is RM26.3 million as compared to RM14.9 million for the corresponding quarter in financial year 2016, higher by RM11.4 million. This was mainly due to higher revenue recognised in current quarter as a result of high percentage of completion for MRT feeder buses during the current quarter.

The segment posted a profit before taxation for the current quarter of RM0.1 million, as compared to RM0.3 million recorded in the corresponding quarter in financial year 2016, a marginal reduction of RM0.2 million.

The lower profits during the quarter were mainly due to higher overhead cost during the current quarter in Commercial Vehicles segment.

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

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

This was mainly due to increased activities in Commercial Vehicles Segment for the current quarter as well as increase in unrealised foreign exchange gains.

B3. Prospects

The Group continues its efforts to complete its current projects. Even though the current projects continue to be faced with various challenges that affect the operations and financial performance, various mitigative actions continue to be executed to alleviate the effects.

Work continues on Phase 2 of the Mumbai Monorail Project in India and the additional scopes awarded for the Line 17 Monorail Project in Brazil.

In Malaysia, Scomi Transit Project Sdn Bhd ("**STP**"), a wholly-owned subsidiary of Scomi Engineering Bhd, is currently in litigation relating to the termination of the Kuala Lumpur Monorail Fleet Expansion Project. STP also continues to pursue its extension of time and variation order claims and all other claims in line with its entitlements. Whilst STP is in discussion with its client, to resolve the matter amicably, any unfavorable outcome will potentially have an adverse impact on the Group.

As part of future growth plan, there is added focus to pursue projects in various strategic markets such as China, Turkey and ASEAN.

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 Expense

	3-mths ended		YTD 9-mths ended	
	31.12.16	31.12.15	31.12.16	31.12.15
	RM'000	RM'000	RM'000	RM'000
Current period taxation				
Malaysian income tax	-	307	-	518
Foreign tax	-	-	-	-
	-	307	-	518
Prior period taxation				
Income tax under provided	31	-	241	-
Total tax expense	31	307	241	518

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:

Secured	31.12.16	31.03.16
	RM'000	RM'000
Non-Current		
Term loan	44,757	41,908
Revolving credits	36,734	25,635
Finance lease liabilities	39,273	3,943
	<u>120,764</u>	<u>71,486</u>
Current		
Bank overdrafts	73,914	71,909
Term loans	116,271	113,423
Trade facilities	579	760
Finance lease liabilities	4,781	3,295
Revolving credits	211,574	208,944
	<u>407,119</u>	<u>398,331</u>
Total		
Bank overdrafts	73,914	71,909
Term loans	161,028	155,331
Trade facilities	579	760
Finance lease liabilities	44,054	7,238
Revolving credits	248,308	234,579
Total borrowings	<u>527,883</u>	<u>469,817</u>

The group borrowings are denominated in the following currencies:

	31.12.16	31.03.16
	RM'000	RM'000
	<u>equivalent</u>	<u>equivalent</u>
Ringgit Malaysia	388,282	350,553
United States Dollar	81,491	67,543
Indian Rupee	58,110	51,721
	<u>527,883</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 commenced on 1 August 2016 and completed on 8 August 2016. Molinari claims payment for services provided. SRB, the main recipient of the services, is defending the claims and has a counter claim arising out of the services performed by the claimants. The parties have delivered their respective written submissions on the claims and counterclaims. The Final Award by the Arbitral Tribunal is pending.

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.

By written notice PMB purported to terminate the Contract on 9 June 2016. STP disputed the purported termination and applied to the Kuala Lumpur High Court on 20 June 2016 to restrain the termination of the Contract pending reference of dispute to arbitration on grounds that the purported terminated was in breach of the Contract, was bad in law, made in bad faith, unconscionable and that PMB was estopped from terminating the Contract ("the dispute").

STP filed a Notice of Arbitration against PMB in respect of the dispute on 21 July 2016. The arbitration is pending.

On 22 July 2016, the High Court dismissed STP's action to restrain the purported termination of the Contract pending arbitration ("**High Court Decision**").

On 25 July 2016, STP filed an appeal against the High Court Decision which was fixed for hearing on 16 August 2016 ("**Appeal**").

The High Court on 26 July 2016, on an application by STP, granted an interim injunction to restrain PMB from appointing another contractor in respect of the Project pending the disposal of the Appeal on 16 August 2016 ("**interim injunction**").

On 16 August 2016, the Court of Appeal adjourned the hearing of the Appeal to 20 September 2016 and extended the interim injunction to 20 September 2016.

The hearing of the Appeal was adjourned to 9 November 2016, 10 January 2017 and 20 February 2017. The interim injunction was extended by the Court of appeal until 9 November 2016, and then to 10 January 2017 and to 20 February 2017 respectively.

The hearing of the Appeal was adjourned on 20 February 2017 and is now fixed for hearing on 27 April 2017. By agreement, the interim injunction was extended to 27 April 2017.

B9. Dividend Declared

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

B10. Earnings Per Share

The computations for basic earnings per share are as follows:-

	3-mths ended		YTD 9-mths ended	
	31.12.16 RM'000	31.12.15 RM'000	31.12.16 RM'000	31.12.15 RM'000
Profit for the period	3,029	1,236	402	4,889
Weighted average no. of shares in issue ('000)	342,080	342,080	342,080	342,080
Basic earnings per share (sen)	<u>0.89</u>	<u>0.36</u>	<u>0.12</u>	<u>1.43</u>

There was no dilution in the earnings per share of the Company as at 31 December 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:-

	3-mths ended		YTD 9-mths ended	
	31.12.16 RM'000	31.12.15 RM'000	31.12.16 RM'000	31.12.15 RM'000
Profit before taxation is stated after charging/(crediting):-				
- Interest income	(680)	(260)	(926)	(1,569)
- Interest expense	13,734	10,974	34,312	28,529
- Depreciation and amortisation	3,219	2,719	7,063	6,711
- Unrealised foreign exchange gains	(18,072)	(3,197)	(33,164)	(10,692)
- Realised foreign exchange (gains)/losses	285	(143)	363	(1,185)

Note: The finance costs included within cost of sales amounted to RM10.2 million (2016: RM9.4 million) and RM25.2 million (2016: RM23.6 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)

	As at	
	31.12.16 RM'000	31.03.16 RM'000
Total accumulated (losses)/retained earnings of the Company and its subsidiaries :		
Realised	(281,060)	(250,122)
Unrealised	83,098	39,092
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	(197,962)	(211,030)
Less : Consolidation adjustments	65,342	78,008
Total Group accumulated losses	<hr/>	<hr/>
	(132,620)	(133,022)

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 24 February 2017.