

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 2015 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 June 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 3-mths ended	
	30.06.16 RM'000	30.06.15 RM'000	30.06.16 RM'000	30.06.15 RM'000
Segment Revenue				
Rail	20,335	35,757	20,335	35,757
Commercial Vehicles	12,637	10,335	12,637	10,335
Revenue	32,972	46,092	32,972	46,092
Segment Results				
Rail	4,218	5,261	4,218	5,261
Commercial Vehicles	(2,041)	(2,044)	(2,041)	(2,044)
Corporate expenses	(1,591)	(1,259)	(1,591)	(1,259)
Profit before taxation	586	1,958	586	1,958
Tax expense	(242)	(102)	(242)	(102)
Profit for the financial period	344	1,856	344	1,856

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 June 2016.

A11. Capital and Operating Lease Commitments

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

	30.06.16 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:

	30.06.16 RM'000	31.03.16 RM'000
Due within 1 year	1,029	1,043
Due within 1 and 2 years	83	324
Total	1,112	1,367

A12. Significant Related Party Transactions

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

	3-mths ended 30.06.16 RM'000	YTD 3-mths ended 30.06.16 RM'000
Transactions with a company connected to Directors		
- Provision of airline ticketing services	-	-
- Sharing of rental and office relocation costs with immediate holding company	79	79

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 RM33.0 million for the current quarter as compared to RM46.1 million for the corresponding quarter in financial year 2016, lower by RM13.1 million due to lower revenue generated from Rail segment.

The Group posted a profit after taxation for the current quarter of RM0.3 million as compared to RM1.9 million for the corresponding quarter in financial year 2016. These were mainly due to unrealised foreign exchange losses 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 RM20.3 million, lower by RM15.5 million as compared to RM35.8 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 RM4.2 million for the current quarter, as compared to RM5.3 million for the corresponding quarter in financial year 2016, lower by RM1.1 million.

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

(b) Commercial Vehicles segment

Revenue for the current quarter is RM12.6 million, higher by RM2.3 million as compared to RM10.3 million for the corresponding quarter in financial year 2016. This was mainly due to sales generated from manufacturing of feeder buses, being a new project during the quarter.

The segment posted a loss before taxation for the current quarter of RM2.0 million, same as recorded in the corresponding quarter in financial year 2016.

The losses during the quarter were mainly due to start-up cost incurred on new project 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 RM0.6 million as compared to loss before taxation of RM17.3 million for the preceding quarter.

These were mainly due to unrealised foreign exchange gain arising from translation of accrued receivables for the Mumbai and Brazil monorail projects due to strengthening of INR and BRL against RM for the quarter as compared to exchange losses in the preceding quarter.

B3. Prospects

The Group continues to intensify efforts to expand businesses in its current markets of Brazil, India and Malaysia and to pursue new businesses in various strategic markets such as China, Thailand, Turkey, Pakistan, Singapore and Sri Lanka.

The existing projects continue to be faced with various challenges that affect the operations and financial performance. However, various mitigative actions are being 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. Should the outcome of the legal proceedings be unfavourable, it will have an adverse impact on the Group. STP will continue to pursue its extension of time and variation order claims pursuant to the Construction Industry Payment & Adjudication Act 2012 ("**CIPAA**") and in arbitration and all other claims in line with its entitlements.

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 3-mths ended	
	30.06.16 RM'000	30.06.15 RM'000	30.06.16 RM'000	30.06.15 RM'000
Current period taxation				
Malaysian income tax	32	102	32	102
Foreign tax	-	-	-	-
	<u>32</u>	<u>102</u>	<u>32</u>	<u>102</u>
Prior period taxation				
Income tax under provided	210	-	210	-
Total tax expense	<u>242</u>	<u>102</u>	<u>242</u>	<u>102</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:

Secured	30.06.16	31.03.16
	RM'000	RM'000
Non-Current		
Term loan	44,649	41,908
Revolving credits	33,309	25,635
Finance lease liabilities	3,672	3,943
	<u>81,630</u>	<u>71,486</u>
Current		
Bank overdrafts	72,976	71,909
Term loans	116,231	113,423
Trade facilities	1,099	760
Finance lease liabilities	3,398	3,295
Revolving credits	203,972	208,944
	<u>397,676</u>	<u>398,331</u>
Total		
Bank overdrafts	72,976	71,909
Term loans	160,880	155,331
Trade facilities	1,099	760
Finance lease liabilities	7,070	7,238
Revolving credits	237,281	234,579
Total borrowings	<u>479,306</u>	<u>469,817</u>

The group borrowings are denominated in the following currencies:

	30.06.16	31.03.16
	RM'000	RM'000
	<u>equivalent</u>	<u>equivalent</u>
Ringgit Malaysia	348,517	350,553
United States Dollar	77,958	67,543
Indian Rupee	52,831	51,721
	<u>479,306</u>	<u>469,817</u>

B8. Changes in Material Litigation

Claims by 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.

The Company is currently in negotiations with Molinari to amicably settle the SEB Arbitration.

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 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.

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.

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 Per Share

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

	3-mths ended		YTD 3-mths ended	
	30.06.16 RM'000	30.06.15 RM'000	30.06.16 RM'000	30.06.15 RM'000
Profit for the period	344	1,856	344	1,856
Weighted average no. of shares in issue ('000)	342,080	342,080	342,080	342,080
Basic earnings per share (sen)	<u>0.10</u>	<u>0.54</u>	<u>0.10</u>	<u>0.54</u>

There was no dilution in the earnings per share of the Company as at 30 June 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 3-mths ended	
	30.06.16 RM'000	30.06.15 RM'000	30.06.16 RM'000	30.06.15 RM'000
Profit before taxation is stated after crediting:-				
- Interest income	184	867	184	867
Profit before taxation is stated after charging:-				
- Interest expense	8,721	8,543	8,721	8,543
- Depreciation and amortisation	2,206	1,620	2,206	1,620
- Unrealised foreign exchange gains	(6,976)	(1,867)	(6,976)	(1,867)
- Realised foreign exchange losses/(gains)	225	(715)	225	(715)

Note: The finance costs included within cost of sales amounted to RM7.3 million (2016: RM6.9 million) for both current quarter and year to date.

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	
	30.06.16	31.03.16
	RM'000	RM'000
Total accumulated (losses)/retained earnings of the Company and its subsidiaries :		
Realised	(261,177)	(250,122)
Unrealised	50,495	39,092
	<u>(210,682)</u>	<u>(211,030)</u>
Less : Consolidation adjustments	78,004	78,008
Total Group accumulated losses	<u>(132,678)</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 11 August 2016.