

Scomi



Realising **Potential**

Annual Report
2017

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- Form of Proxy



Key Financial Indicators

	2017	2016	2015	2014	2012-13
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	162,880	174,548	238,321	236,898	450,271
EBITDA	46,624	33,578	40,821	11,782	19,907
Depreciation & amortisation	9,287	9,088	9,618	8,546	10,073
Finance costs	48,982	36,370	33,251	37,878	42,820
Loss before tax	(11,645)	(11,880)	(2,048)	(34,642)	(32,986)
Tax (expense)/credit	(8,111)	10,037	2,426	(3,116)	11,904
(Loss)/profit for the year/period	(19,756)	(1,843)	378	(37,758)	(21,082)
(Loss)/profit attributable to owners of the Company	(19,756)	(1,843)	378	(37,758)	(21,082)
Weighted average number of shares in issue ('000)	341,958	341,958	341,958	341,958	341,958
Basic (loss)/earnings per ordinary share (sen)**	(5.78)	(0.54)	0.11	(11.04)	(6.16)

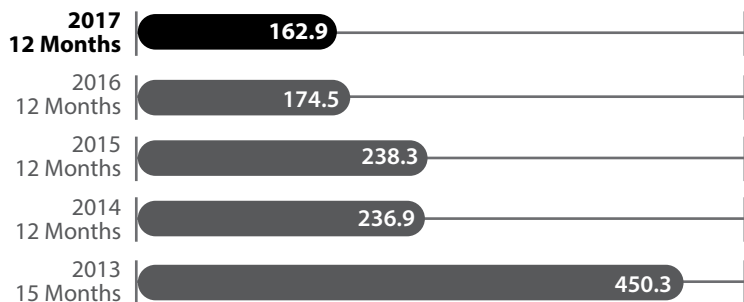
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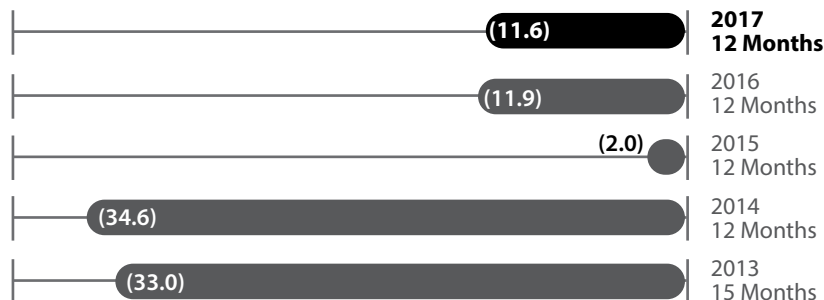
Based on profit/(loss) attributable to owners of the Company and the weighted average number of shares assumed to be in issue in the respective period/year.

Key Financial Highlights

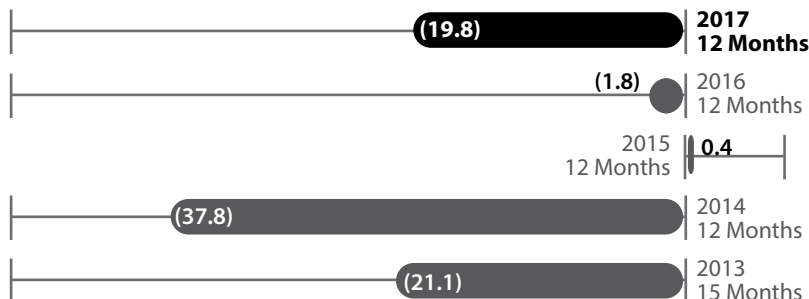
Revenue (RM Million)



Profit/(Loss) Before Tax (RM Million)



Net Profit/(Loss) (RM Million)



Total Assets
(RM Million)
1,106.0
2016 : 961.0

Shareholders' Fund
(RM Million)
256.0
2016 : 265.3

Net Tangible Assets
(RM Million)
102.3
2016 : 108.8

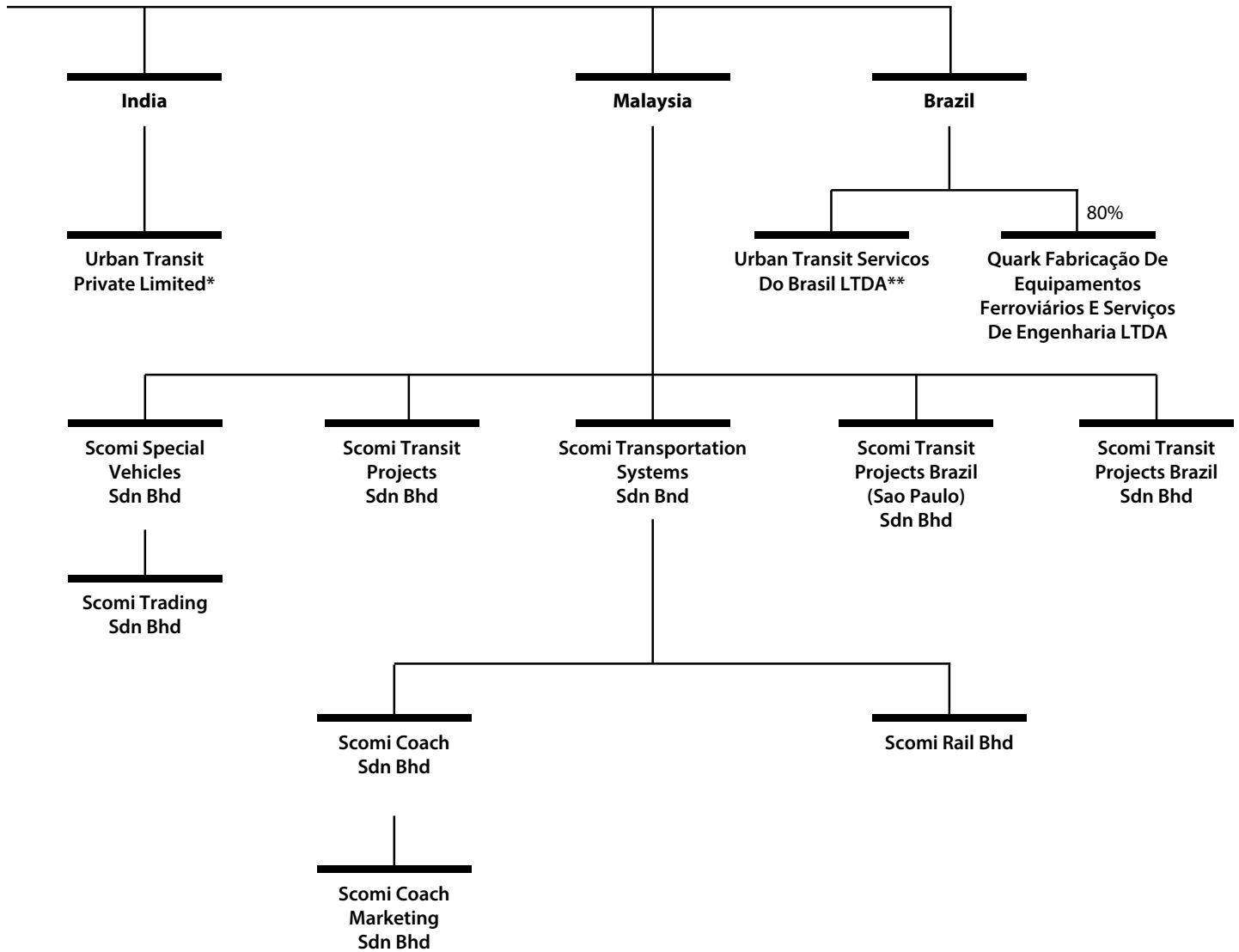
Basic Loss
per share
(sen)
(5.78)
2016 : (0.54)

Net Assets Per Share
(Attributable to owners
of the Company)
(sen)
74.8
2016 : 77.5

Corporate Structure

As at 30 June 2017

SCOMI ENGINEERING BHD ⁽¹⁾



Notes:

- 1 Listed on the Bursa Malaysia Securities Berhad (Kuala Lumpur Stock Exchange).
- * includes 0.0004% held by Scomi Rail Bhd
- ** includes 1 quota (similar to share in other jurisdictions) held by Scomi Rail Bhd
- Except as otherwise expressly stated, all companies in this structure are wholly owned by their respective holding companies.



Corporate Statement

With a presence in 4 locations across 3 countries, the Scomi Engineering group of companies is a global technology enterprise in the energy and logistics industries.

We are a global technology enterprise.

Our global reach, capabilities and talent provide us with the necessary resources to develop and own new technology in all areas of our business.

We focus on Energy & Logistics.

All our businesses are focused on the Energy and/ or Logistics sectors with the ability to compete globally. All of us in the Scomi family should remember that any new initiatives we undertake will focus on these areas of business.

We provide innovative solutions.

We innovate to respond to an evolving environment. Our products and operations meet today's needs while anticipating tomorrow's. We are committed to developing competitive and innovative solutions to create efficiency, add value and grow with our customers to shape our future.

We aim to realise potential for our stakeholders.

Our customers:

We will develop and offer customers innovative and competitive products and services that help them grow their business.

Our shareholders:

We are committed to providing long-term superior returns to our shareholders.

Our people:

We aim to provide our employees with developmental opportunities so they can succeed on personal and professional levels.

Our suppliers:

We will treat our suppliers as our partners in the mutual interest of business growth.

Our society / environment:

As a good corporate citizen, we will give back to the communities we operate in, worldwide.

Corporate Information

Board of Directors

Datuk Zainun Aishah Binti Ahmad

Independent Non-Executive Chairman

Dato' Ikmal Hijaz Bin Hashim

Independent Non-Executive Director

Tunku Alizan Bin Raja Muhammad Alias

Independent Non-Executive Director

Liew Willip

Independent Non-Executive Director

Kanesan A/L Veluppillai

Non-Independent Non-Executive Director

Cyrus Eruch Daruwalla

Non-Independent Non-Executive Director

Shah Hakim @ Shahzanim Bin Zain

Non-Independent Executive Director

Senior Independent Non-Executive Director

Dato' Ikmal Hijaz Bin Hashim

Email : ikmal@scmigroup.com or
info.seb@scmigroup.com

Audit and Risk Management Committee

Dato' Ikmal Hijaz Bin Hashim (Chairman)

Tunku Alizan Bin Raja Muhammad Alias

Liew Willip

Nomination and Remuneration Committee

Datuk Zainun Aishah Binti Ahmad (Chairman)

Tunku Alizan Bin Raja Muhammad Alias

Kanesan A/L Veluppillai

Registered Office

Level 17, 1 First Avenue

Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Tel : 03-7717 3000

Fax : 03-7728 5258

Administrative and Correspondence Address

Level 17, 1 First Avenue

Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Tel : 03-7717 3000

Fax : 03-7728 5258

Website : www.scomiengineering.com.my

Email : info.seb@scmigroup.com

Registrar

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House

Pusat Dagangan Dana 1

Jalan PJU 1A/46

47301 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Tel : 03-7849 0777 (Helpdesk)

Fax : 03-7841 8151/8152

Email : ssr.helpdesk@symphony.com.my

Company Secretary

Ong Wei Leng (MAICSA 7053539)

Auditors

KPMG PLT (LLP0010081-LCA & AF 0758)

Chartered Accountants

Level 10, KPMG Tower

8, First Avenue, Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Principal Bankers

United Overseas Bank (Malaysia) Berhad

Menara UOB, Jalan Raja Laut

P.O. Box 11212

50738 Kuala Lumpur

Malaysia

Malayan Banking Berhad

Menara Maybank

100, Jalan Tun Perak

50050 Kuala Lumpur

Malaysia

OCBC Bank (Malaysia) Berhad

Menara OCBC

18, Jalan Tun Perak

50050 Kuala Lumpur

Malaysia

Standard Chartered Bank Malaysia Berhad

Menara Standard Chartered

30 Jalan Sultan Ismail

50250 Kuala Lumpur

Malaysia

Export-Import Bank of Malaysia Berhad

EXIM Bank

Jalan Sultan Ismail

50250 Kuala Lumpur

Malaysia

Small Medium Enterprise Development Bank Malaysia Berhad

Menara SME Bank

Jalan Sultan Ismail

P.O. Box 12352

50774 Kuala Lumpur

Malaysia

Stock Exchange Listing

Main Market of Bursa Malaysia

Securities Berhad

Stock Name: SCMIEN

Stock Code: 7366

Investor Relations

Zubaidi Bin Harun

Level 17, 1 First Avenue

Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Tel : 03-7717 3000

Fax : 03-7728 5258

Email : info.seb@scmigroup.com

Board of Directors

DATUK ZAINUN AISHAH BINTI AHMAD

Chairman,
Independent Non-Executive Director

Datuk Zainun Aishah, 70, female, Malaysian, was appointed to the Board as an Independent Non-Executive Director on 15 December 2005.

Datuk Zainun Aishah graduated from University of Malaya with an Honours Degree in Economics.

Datuk Zainun Aishah began her career with Malaysian Industrial Development Authority ("MIDA"), the Malaysian government's principal agency for the promotion and coordination of industrial development in the country where she worked for 35 years. In her years of service, she held various key positions in MIDA as well as in some of the country's strategic council, notably her pivotal role as National Project Director in the formulation of Malaysia's first Industrial Master Plan. She was the Director-General of MIDA for 9 years and Deputy Director-General for 11 years. Datuk Zainun Aishah was a Director of Tenaga Nasional Berhad, Kulim HiTech Park, Malayan Banking Berhad and Shell Refinery Company (Federation of Malaya) Bhd.

Currently Datuk Zainun Aishah's other directorships in public companies are, Degem Bhd, Berjaya Food Bhd, British American Tobacco (Malaysia) Berhad and Pernec Corporation Bhd.

Datuk Zainun Aishah is a member of, and the Chairman of the Nomination and Remuneration Committee of the Board. She attended all of the 7 Board Meetings held during the financial year ended 31 March 2017.

DATO' IKMAL HIJAZ BIN HASHIM

Independent Non-Executive Director

Dato' Ikmal, 64, male, a Malaysian, was appointed to the Board as an Independent Non-Executive Director on 29 October 2013.

Dato' Ikmal graduated with a Bachelor of Arts with Honours from University Malaya. Dato' Ikmal also obtained an Mphil. in Land Management from University of Reading, United Kingdom.

Dato' Ikmal began his career in the Administrative and Diplomatic Service of the Government of Malaysia in 1976. In late 1991 he left the government services and joined United Engineers (M) Berhad as General Manager of Malaysia-Singapore Second Crossing project.

In 1993, he became the Chief Operating Officer of Projek Lebuhraya Utara-Selatan Berhad ("PLUS") and in 1995 he was promoted as the company's Managing Director.

In 1999, he was then appointed as the Managing Director of Prolink Development Sdn Bhd ("Prolink") and concurrently assumed the position of President for the Property Division of the Group. He was subsequently appointed as Managing Director of Renong Berhad from 2002 until 2003.

In November 2003, Dato' Ikmal was seconded to Pos Malaysia Berhad as the Chief Executive Officer/Managing Director as well as the Group Managing Director of Pos Malaysia and Services Holdings Berhad. Then in November 2007 he was appointed as Chief Executive of Iskandar Regional Development Authority ("IRDA") until February 2009. He then became the Chairman of Faber Group Berhad from 1 March 2009 until June 2014. During the said period he was also appointed as Independent Non-Executive Director of UEM Land Berhad.

Currently, Dato' Ikmal's other directorships in public companies include, EP Manufacturing Bhd, Nadayu Properties Berhad and MB World Group Berhad (formerly known as Emas Kiara Industries Berhad).

Dato' Ikmal is a member of, and the Chairman of the Audit and Risk Management Committee of the Board. He attended 5 out of 7 Board Meetings held during the financial year ended 31 March 2017.

TUNKU ALIZAN BIN RAJA MUHAMMAD ALIAS

Independent Non-Executive Director

YM Tunku Alizan, 50, male, Malaysian was appointed to the Board as an Independent Non-Executive Director on 20 August 2014.

YM Tunku Alizan holds a LLM in Construction Law from the University of Bristol and LLB (Hons) University of Malaya. In 1991, he was admitted as an Advocate & Solicitor of the High Court of Malay and in 1999 together with Dato' Zulkifly bin Rafique and several other partners formed Zul Rafique & Partners.

YM Tunku Alizan has been exposed to a wide range of legal experience in his 23 years post-qualification, specializing in the areas of Corporate and Construction Law. He is also a qualified company secretary and is a joint company secretary of a public listed company in Malaysia.

YM Tunku Alizan is a Director of KUB Malaysia Berhad and the Chairman of Gabungan AQRS Berhad.

YM Tunku Alizan is a member of the Audit and Risk Management Committee and Nomination and Remuneration Committee of the Board. He attended all of the 7 Board Meetings held during the financial year ended 31 March 2017.

LIEW WILLIP

Independent Non-Executive Director

Mr Liew, 49, male, Malaysian, was appointed to the Board as an Independent Non- Executive Director on 28 October 2015.

Mr Liew is a commerce graduate of the University of Melbourne and a Chartered Financial Analyst. Upon graduation, Mr Liew worked with international accounting firm KPMG as an auditor.

Subsequently, he joined a local stockbroking company as an investment analyst, and later, moved to the Kuala Lumpur office of an international investment bank, Barclays deZoete Wedd, where he was the senior equity analyst. In 1996, Mr Liew was hired to set up the Malaysian equity research operations of another international investment bank, NatWest Markets, where he was the Director and Head of Research. In 1998, Mr Liew joined the national asset management company, Pengurusan Danaharta Nasional Berhad ("Danaharta"), where he was among the pioneer staff members. At Danaharta, Mr Liew was the Assistant General Manager/Head of Research unit (Corporate Services Division).

After leaving Danaharta in 2000, Mr Liew co-founded an independent investment advisory company, and a consulting company that specializes in financial and investor communications. Mr Liew is currently the Managing Director of a company providing consulting services. The other Malaysian public company in which he is a Director of is Scomi Group Bhd.

Mr Liew is a member of the Audit and Risk Management Committee of the Board. He attended all the 7 Board Meetings held during the financial year ended 31 March 2017.

Board of Directors *(cont'd)*

KANESAN A/L VELUPILLAI

Non-Independent Non-Executive Director

Mr Kanesan, 56, male, Malaysian was appointed to the Board as a Non-Independent Non-Executive Director on 1 March 2016.

Mr Kanesan holds a Bachelor of Economics with honours in Business Administration from the University of Malaya.

Mr Kanesan has over 30 years' experience in the financial services, automotive, property and infrastructure, transportation and oil and gas sectors and has served with companies such as RHB Bank, DRB-HICOM, Credit Corporation (Malaysia) Berhad, Master-Carriage and Scomi. He holds the position of Group Chief Operating Officer of Scomi Group Bhd and has also served Scomi as its Senior Vice President, Global Marketing, President, Scomi International, Country President, Scomi India and Chief Executive Officer of the Company. Currently, Mr Kanesan is the Director, International Business of Safeguards Corporation.

Mr Kanesan is a member of the Nomination and Remuneration Committee of the Board. He attended 6 out of the 7 Board Meetings held during the financial year ended 31 March 2017.

CYRUS ERUCH DARUWALLA

Non-Independent Non-Executive Director

Mr Cyrus, aged 55, male, Indian citizen, is a Non-Independent Non-Executive Director of the Company and was appointed to the Board on 23 May 2016.

He graduated with a Bachelor of Commerce (Honours) degree from University of Bombay in 1982, and was admitted as an associate member of the Association of Chartered Certified Accountants, United Kingdom in 1993.

Mr Cyrus joined IJM Corporation Berhad ("IJM") in September 2006 as Chief Financial Officer, heading the Accounts & Finance Department for the overall Group.

Upon graduation, he completed his audit articleship with Ernst & Young, London, UK prior to joining Addmoss Taylor & Partners, London, before being appointed as Senior Accountant for Portlands of Blackheath Ltd., UK in 1987. In Malaysia, he worked as Head of Professional Programmes for Emile Woolf Far East Sdn Bhd, before being appointed as Group Financial Controller for the Sri America Group of Companies. In 1999, he joined PricewaterhouseCoopers, Malaysia as Manager before assuming the position of Executive Director in 2003.

He is a Director of Road Builder (M) Holdings Bhd and Scomi Group Bhd and is also an Executive Director for several of IJM Group's overseas entities.

He attended 4 out of the 7 Board Meetings held during the financial year ended 31 March 2017.

SHAH HAKIM @ SHAHZANIM BIN ZAIN

Non-Independent Executive Director

Encik Shah Hakim, aged 52, male, Malaysian, is a Non-Independent Executive Director of the Company and was appointed to the Board on 15 December 2005.

Encik Shah Hakim started his career as an auditor with Ernst & Young and was subsequently promoted as Consulting Manager, responsible for servicing large corporations. He went on to be appointed as Executive Director of a regional packaging manufacturer in 1992, with direct operational responsibility. He currently sits on the Board of Scomi Group Bhd, Scomi Energy Services Bhd and KMCOB Capital Berhad.

He attended all of the 7 Board Meetings held during the financial year ended 31 March 2017.

Notes:

Save as disclosed, none of the Directors have:

- *any family relationship with any Director and/or Major Shareholder of Scomi Engineering Bhd;*
- *any conflict of interest, or any personal interest in any business arrangement, involving Scomi Engineering Bhd;*
- *any conviction for offences within the past five (5) years (other than traffic offences, if any); and*
- *any public sanction or penalty imposed by the relevant regulated bodies during the financial year ended 31 March 2017.*

Key Senior Management

ROHAIDA ALI BADARUDDIN

Chief Executive Officer

Rohaida Ali Badaruddin 48, female, Malaysian is the Chief Executive Officer of Scomi Engineering Bhd. In this role, she heads the leadership team to help identify and develop new market opportunities as well as to grow the existing customer base and build strategic relationships across Scomi Transport Solutions' businesses in key markets of Malaysia, India, Brazil and rest of ASEAN and South Asia.

Prior to that, she was responsible for Scomi Group Bhd's Marine Operations in Indonesia and Malaysia, where she initiated consolidation process for improved business efficiency and drove project management for new vessel delivery and refurbishments.

Rohaida joined Scomi Group Bhd in year 2000. She was one of the key team members in the listing of Scomi Group Bhd in 2003 and subsequently various acquisitions by Scomi, especially in the process of integration and alignment. Some of the roles that she has held throughout her career in Scomi were overseeing Human Resource, ICT, Group Communications, Investor Relations, Risk Management, Performance Monitoring and Support Services which include QAQC, Procurement, Assurance and Legal & Secretarial. Highlights of her career in Scomi are the listing of Scomi Group, its global re-branding exercise, development of Scomi's Global People Policy, development of HR blueprint, SAP implementation, dealing with international media such as CNN, New York Times, Washington Post & Herald Tribune and handling of analysts & fund managers worldwide such as Credit Suisse, CLSA, Macquarie, Hwang DBS and Deutsche Bank.

Rohaida started her career in 1991 with Projek Lebuhraya Utara Selatan Bhd (PLUS), a concessionaire that built and operates Malaysia's longest highway, the North South Expressway. Highlight of her 9 years in PLUS, was her involvement in the introduction of Malaysia's first electronic toll payment system which started in Klang Valley areas from 200 live test users to 50,000 users on its 3rd generation system, before its implementation nationwide. She was leading the project in various areas including user requirement, implementation plan, operations, commercial, marketing, systems, customer service and processing of electronic payment. Her last position in PLUS was as Manager of the Commercial Facilities Department where she looked after all the sales outlet contracts for rest areas and advertising billboards along the expressway.

She is a graduate in Mathematics (minor in Computer Science) from the University of Texas at El Paso, USA, and in 2014 attended an Advanced Management Programme (AMP) at Harvard University, Boston, USA.

She is a Director of Scomi Rail Bhd and also serves on the Board of Scomi Group of Companies.

JOSEPH NIXON

Chief Financial Officer

Joseph Nixon, 47, male, Malaysian, is the Chief Financial Officer of Scomi Engineering Bhd (SEB). He has more than 25 years of experience in Finance, Accounting and Management in various industries including trading, manufacturing, construction and property development.

He first joined SEB in 2008 as Senior Manager – Finance and was later promoted to General Manager – Finance in 2009. In 2012, he was appointed as the SEB's Financial Controller – Brazil before returning to Malaysia to become the company's Group Financial Controller in 2013.

Prior to SEB, he has worked with Ranhill Engineers and Constructors Sdn Bhd, Perkom Group of Companies and Moore Stephens/Ismail Chong & Associates.

Joseph graduated from the University Putra Malaysia with a Bachelor's Degree in Finance and Accountancy. He is a chartered accountant and a member of the Malaysian Institute of Accountants.

MARK STAIB

Vice President – Manufacturing and Operations

Mark Staib, 44, male, Australian, is the Vice President – Manufacturing and Operations for Scomi Engineering Bhd (SEB). He is in charge of SEB's global manufacturing operations for all product lines within the SEB group of companies.

Mark is an experienced rolling stock and manufacturing specialist with more than 20 years of involvement in the railway industry that includes manufacturing, delivery, integration and commissioning of all types of rolling stock and rail systems. He has vast experience in business operations and project management with proven experience in managing large scale international and multicultural business operations and projects.

He has been involved in LRT project (Malaysia, Ampang Line), rail projects involving Electric Multiple Units (EMU) (Australia, Brisbane and Perth), and monorail projects in Kuala Lumpur (Malaysia), Mumbai (India), Sao Paulo (Brazil) and Manaus (Brazil). Prior to joining SEB, Mark worked with leading rail solution companies including EDI Rail Australia, Bombardier and MTrans Technology Bhd.

PETER J. EDWARDS

Vice President - Engineering

Peter J. Edwards, 48, male, British, is the Vice President – Engineering for Scomi Engineering Bhd (SEB). He is responsible for all engineering matters of the SEB group of companies.

Peter is a chartered engineer with more than 25 years of Mass Rapid Transit railway systems engineering and project management experience, with an emphasis on rolling stock engineering and operations and maintenance.

Experienced in all phases of projects, and in different project types including public private partnership (PPP) contracts, Peter has worked on projects involving all in Urban vehicle types; Tram, BRT, LRT, Monorail, APM, and Metro. He has also performed in client, contractor and consultant roles working on urban rail projects in the following cities: Singapore, London, Hong Kong, Manila, Kuala Lumpur, Sao Paulo, Manchester and San Francisco.

He graduated from the University of Liverpool, with a Bachelor Degree in Engineering (Hons) in 1990 and is a member of The Institution of Mechanical Engineers (IMechE), United Kingdom. He was also the Honorary Secretary of IMechE Singapore Branch from 2011 – 2012.

Key Senior Management *(cont'd)*

NATHAWAT KHUNPRASIT

Director – Technology & Innovation

Nathawat Khunprasit, 50, male, Thai, is the Director – Technology & Innovation of Scomi Engineering Bhd (the Company). In this capacity, he is responsible for technology development, value proposition, market strategy and commercialization of the Company's transportation technology.

He has over 15 years of experience in monorail and electric vehicle industries, holding senior positions in R&D, engineering management and technology development. He has been involved in the entire history of Company's monorail technology evolution and development.

He started his career in industrial automation in high precision drive and control system solutions. In 2002, he joined a commercial vehicle and monorail company (MTrans) where he developed the electric propulsion system for the first Malaysia's monorail (Gen 1) and hybrid bus projects. He is one of key members involved in the development of Company's Gen 2 monorail. In 2011, he became Head of Rolling Stock Engineering, leading the rolling stock design & engineering of the KL Monorail Expansion and the Sao Paulo Line 17 projects. Thereafter, he became head of Technology & Innovation leading the development of Company's new technology initiatives. In 2017, he took on additional portfolios of marketing in Thailand for monorail and commercial vehicles, as the Country Director for Thailand.

Nathawat graduated from King Mongkut's Institute of Technology, North Bangkok, Thailand and received his Bachelor Electrical Engineering, Power Electronics in 1991.

ANIS ALWANI MOHAMED NORDIN

Head – Legal

Anis Alwani Mohamed Nordin, 45, female, Malaysian, brings with her over 19 years of experience in the legal (counsel and in-house) and management field in various industries including dredging & marine construction, transport solutions and retailing.

Anis joined SEB in 2011 and is currently heading and overseeing the SEB Group legal matters.

She graduated with a Bachelor of Law degree from the Manchester Metropolitan University in 1994 and was admitted as an Advocate & Solicitor of the High Court of Malaya in 1997.

Prior to joining SEB, she was a practicing lawyer specialising in corporate, commercial law and corporate finance in Zaid Ibrahim & Co and was an in-house counsel heading the Legal Department of a dredging reclamation and marine specialist company.

Notes:

Save as disclosed, none of the Senior Management have:

- *any family relationship with any Director and/or major shareholder of Scomi Engineering Bhd;*
- *any conflict of interest, or any personal interest in any business arrangement, involving Scomi Engineering Bhd;*
- *any conviction for offences within the past five (5) years (other than traffic offences, if any); and*
- *any public sanction or penalty imposed by the relevant regulated bodies during the financial year ended 31 March 2017.*



Chairman's Statement

Dear Stakeholders,

On behalf of the Board of Directors, I hereby present the annual report and audited financial accounts of Scomi Engineering Berhad ("SEB" or "Company") for the financial year ended March 31, 2017 ("FY2017").

YEAR IN REVIEW

FY2017 was a very challenging year for SEB. However, despite the challenges we continued our progress on our existing projects.

In India, Phase 1 of the Mumbai Monorail has been in operations since 2nd February 2014 and has ferried over 19.5 million commuters with a reliability rate of 97%. For Phase 2 the civil structures are complete and finishing of the interior works at the stations is progressing on track. The testing, commissioning activities and trial runs of Phase 2 are progressing well. We anticipate the start of commercial operations in the second half of FY2018.

In Brazil, SEB was awarded additional works amounting to some RM500 million for its existing Line 17 – Gold Sao Paolo project. The Company was requested to take on the added scope of works and to expedite the completion of the project when several consortium partners were unable to fulfil their commitment. The award of this additional scope is testimony of our competencies and capabilities. To date we are on track with project commitments and expect construction activities to be completed by 2019. The Brazil monorail is a 5-car train and the first train has been built in our Malaysia North Kuala Lumpur Facility and tested on our in-house track in April 2017.

For the Line 18 – Bronze Sao Paolo monorail, we await the notice to proceed from the State Government. The construction of our 98,000sqm manufacturing facility in Taubaté, near the city of Sao Paolo is also subject to the above mentioned notification. Once this facility is fully functional, it will be able to support the rolling stock requirements for both Line 17 and Line 18 as well as allow us to manufacture other rail products to support the transport industry in the region. This will be an asset for SEB moving forward as we look to further grow our market share in South America.

In Malaysia, we have completed 83% of the Kuala Lumpur Monorail Fleet Expansion Project ("Project") but despite SEB's best efforts to proceed for project completion via a Third Supplementary Agreement, work has halted at present. We are pursuing all avenues to protect the rights of all our stakeholders.

For the Commercial Vehicles business unit, SEB has successfully delivered 150 units of buses on target for our client, Volvo Malaysia, as part of the MRT Sg Buloh-Kajang Line feeder bus system. We have also successfully built and delivered special purpose vehicles for clients in Malaysia and abroad.

MARKET OUTLOOK

The outlook for global monorail market is potentially valued at USD120 billion and is growing steadily. With this growing global interest in monorail as a viable urban transport solution, opportunities are abound particularly in developing countries and regions, notably China, South East Asia, North Asia and to a lesser extent, Africa and South America.

In Thailand and Turkey we have submitted monorail bids while in Brazil and India, our existing success record puts us on a good footing to compete for additional monorail lines when tendered. There has been a concerted effort in our business development activities in these countries and we are cautiously optimistic of our success.

China is a new market with immense opportunities for transportation infrastructure development, especially rail. The growing tier-3 and tier-4 cities are looking at the monorail as a viable urban transport solution rather than the larger rail systems. This market is expected to have approximately 2,800KM of monorail lines.

For the Commercial Vehicles business, there is a move towards a build-lease-maintain-operate business model for passenger buses in the Malaysian market. We currently offer these services for the Melaka State Government and hence are ready to capitalise on this business segment. SEB also sees a global market for its specialized vehicles such as the Mobile Command Centre, Hazardous Material ("HAZMAT") and Decontamination ("Decon"). We have provided these units to the Malaysia Airport Fire and Rescue Services and the Jabatan Bomba Malaysia. We are also able to offer maintenance, repair and overhaul services for any type of truck mounted equipment and the target market for these services is South East Asia.

With the global market presenting extensive future prospects for SEB, we will continue to focus to grow our core business, pursue product expansion, introduce product improvements and build integration capabilities. In many of the new markets mentioned, we will look to provide a total value proposition from design, build, integrate, commission and operate and maintain.

Going forward, we will not lose sight of our key priority in prudent cashflow management and putting the Company back on a positive financial footing.

A NEW HORIZON

As a global technology enterprise, our engineering and technology innovations teams have continued to explore various technologies for improvement of our monorail solution. Some of the areas we have focused on during the year under review are nanotechnology and the Internet of Things. For both we have completed proof of concepts with a graphene based supercapacitor for the former and train telematics system for the latter. The intention is to move towards a "greener" monorail that would also be lighter and faster as well as "smarter" in communicating information for improved vehicle management and maintenance.

With our proven products for the Rail and Commercial Vehicles businesses and our continued focus on research and development, we are confident of our ability to expand our presence in the global landscape.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I wish to extend my appreciation to all our dedicated employees for their commitment during a most challenging financial year. In particular, let me highlight the Manufacturing, Engineering and Technology Innovation teams as well as our many engineers across the organisation who have exemplified excellent technical competence, ingenuity and determination to deliver professional performance.

I wish to also thank the management for their assured and strategic leadership. Appreciation is also extended to my fellow board members for their counsel and support in FY2017. Thanks are due to the many stakeholders who have been with us during this eventful financial year. Your continued vote of confidence and support is most appreciated. My deepest gratitude also to the relevant government agencies, our customers, suppliers and shareholders. Let us work together and look forward to a year of better prospects and successes in FY2018.

Datuk Zainun Aishah Binti Ahmad
Chairman

Management Discussion & Analysis

OVERVIEW OF GROUP'S BUSINESS AND OPERATIONS

Scomi Engineering Bhd ("SEB", "Company") is a product engineering and manufacturing organisation that provides public transport systems and solutions. SEB's primary business activities are centred on its two business units – Rail and Commercial Vehicles.

SEB has the capability to provide a complete solution from design, engineering, build, commissioning, integration and operations and maintenance.

For its Rail business, SEB is an end-to-end monorail manufacturer, systems integrator and provider of rolling stock, systems and infrastructure services. We are currently involved in five monorail projects – three monorail lines in Brazil, the Mumbai Monorail in India and the existing monorail in Kuala Lumpur, Malaysia.

For its Commercial Vehicles business, which comprises the Coach and Special Purpose Vehicles ("SPV") units, the business supplies both local and regional markets with various types of coaches / busses as well as mounted trucks, hazardous material apparatus ("HAZMAT") vehicles, decontamination ("Decon") vehicles, mobile command centres, petrol tankers, refuse compactors, vacuum / desludging compactors and aircraft re-fuellers. Our recent project for the Coach unit is the manufacture of 150 units for the MRT Sg Buloh-Kajang Line Feeder Buses. Whilst for our SPV unit, we are supplying to various clients locally as well as within the South East Asia region.

SEB is also able to offer concession facilities management for the operations and maintenance management of any type of transport infrastructure solution. It is currently offering its operations and maintenance services for the Mumbai Monorail in India and the fleet of city buses in Melaka, Malaysia.

In FY2017, we improved on product design, increased engineering capacity and design capabilities and consolidated manufacturing across all products to one hub at our North Kuala Lumpur Facility in Rawang, Malaysia.

FINANCIAL HIGHLIGHT

	FY2017 (RM'000)	FY2016 (RM'000)
Revenue	162,880	174,548
Cost of sales/services	(162,037)	(165,874)
Gross Profit	843	8,674
Other income *	30,489	14,941
Operating expenditure	(29,791)	(30,775)
Operating profit/(loss)	1,541	(7,160)
Finance income	1,443	2,134
Finance cost	(14,629)	(6,854)
Loss before tax	(11,645)	(11,880)
Tax (expense)/credit	(8,111)	10,037
Loss for the year	(19,756)	(1,843)

* Mainly consists of unrealised foreign exchange gains.

Shareholders' equity	256,017	265,273
Total Borrowings	525,641	469,817
Market Capitalisation (as at financial year end)	140,203	80,360

SEB's revenue saw a 6.7% decline compared to the previous financial year due to very challenging business and operating conditions. The Company posted an operating profit of RM1.5 million which was an improvement in FY2017 compared to the previous financial year.

The higher operating profit in FY2017 was mainly due to unrealised foreign exchange gains arising from translation of unbilled receivables for both Mumbai and Brazil monorail projects as a result of strengthening of the Indian Rupee ("INR") and Brazilian Real ("BRL") against the Ringgit Malaysia ("RM").

However, due to significant increase in finance costs and deferred tax liabilities recognised during the year, SEB posted a loss after tax of RM19.76 million for FY2017.

With the continuous efforts in cost optimisation, the Company managed to further reduce its Operating Expenditure ("OPEX") by 3.2% in FY2017, contributing to an overall reduction of 70% over the last 5 years. However, finance costs increased significantly arising from new facilities drawdown in FY2017 for the Coach unit and late payment interest charged by Scomi Group Bhd ("SGB") on the advances given to SEB.

CAPITAL STRUCTURE & SIGNIFICANT CHANGES TO ASSETS

ASSETS	FY2017 (RM'000)	FY2016 (RM'000)
Non-current	248,852	257,544
Current	857,200	703,462
Total Assets	1,106,052	961,006

SEB's overall asset position has exceeded RM1.0 billion, showing an increase of 15.1% due to an increase in current assets to RM857.2 million in FY2017 from RM703.5 million in FY2016. The increased current assets position is mainly due to increased unbilled receivables partly arising from translation of unbilled receivables for both Mumbai and Brazil monorail projects with the strengthening of INR and BRL against RM. The Company's non-current asset position has decreased marginally.

Equity & Liabilities Capital And Reserves Attributable To Owners Of The Company	FY2017 (RM'000)	FY2016 (RM'000)
Share Capital	388,685	342,080
Total Equity Attributable To Owners Of The Company	256,017	265,273
Non-Current Liabilities	163,820	131,007
Current Liabilities	686,215	564,726
Total Liabilities	850,035	695,733
Total Equity And Liabilities	1,106,052	961,006

Total liabilities has increased by 22.2% due to new finance lease from leaseback of land and building at NKLK in Rawang and increase in RM equivalent from the United States Dollar ("USD") loans for Brazil monorail project due to strengthening in USD against RM.

CASH FLOW, CASH AND BANK BALANCES

	FY2017 (RM'000)	FY2016 (RM'000)
Net cash (used in)/from operating activities	(42,761)	91,953
Net cash used in investing activities	(37)	(1,349)
Net cash from/(used in) financing activities	12,615	(84,877)
Net (decrease)/increase in cash and cash equivalents	(30,183)	5,727
Currency translation differences	26,265	(1,469)
Cash and cash equivalents at the beginning of the year	(65,532)	(69,790)
Cash and cash equivalents at the end of the year	(69,450)	(65,532)

Cash and cash equivalents	FY2017 (RM'000)	FY2016 (RM'000)
Short term deposits with licensed banks	31,941	25,904
Cash and bank balances	6,511	5,690
	38,452	31,594
Less : Pledged deposits	(31,750)	(25,217)
	6,702	6,377
Bank overdrafts	(76,152)	(71,909)
Cash and cash equivalents at the end of the year	(69,450)	(65,532)

Other than the new finance lease and increase in RM equivalent from the USD loans as mentioned above, there were new facilities drawdowns during the year to facilitate the existing Commercial Vehicles projects and to fund the working capital requirements, causing an increase in loans and borrowings by 11.9% to RM525.6 million in FY2017. As a result, SEB's net gearing ratio was 1.9 times as at 31 March 2017.

SEB remains prudent in maintaining a financial position that will enable the execution of our strategic objectives to create value over the coming years. We remain confident of meeting working capital requirements and repaying existing loan obligations while servicing contracts and maintaining business operations.

Management Discussion & Analysis *(cont'd)*

However, SEB is also cautious of the current litigation with Prasarana Malaysia Berhad ("Prasarana") with regard to the Kuala Lumpur Fleet Expansion Monorail Project. Unfavorable outcome of our claims will potentially have an adverse impact on the Company's financial performance in the coming financial year.

OPERATIONS UPDATE

Despite operating within a challenging business environment, FY2017 did manage to register improvements in its operational performance.

The Company made progress in re-engineering its manufacturing processes and consolidating for cost-effectiveness and productivity. Emphasis was placed on harnessing synergy between the Company's rail and commercial vehicles units via sharing of knowledge, personnel, resources and streamlining of operations. Localisation of business operations was pursued diligently especially on increasing product localisation and integration for design, fabrication and assembly works.

A relevant key development was the strong resurgence in interest for monorail systems across the globe. New markets that have invested or plan to invest substantially in monorail technology include, but are not limited to, China, Turkey, South East Asia and Sri Lanka. Interest also remains strong in the markets that SEB presently operates in – India, Brazil and Malaysia.

This interest is spurred by a combination of macro-economic factors such as burgeoning urban population growth, rising urbanisation, increasing traffic congestion in cities as well as growing considerations for more eco-friendly, cost-efficient urban transport solutions.

Within the Commercial Vehicles segment, Bus Rapid Transit systems are being given focus especially in Asia. This is a positive trend for SEB as we are not only a coachworks builder but also an assembler for chassis. We also have the capability for design, process engineering and content localisation, which will allow us to capitalise on opportunities in the region.

Further in Malaysia, there is a Government driven initiative to enhance the public service buses to cater for a wider coverage for the public. SEB will be able to capitalise on this initiative as we can build the bus and then offer fleet maintenance services for the client.

Rail Business Unit

In India, we are, since February 2014, handling operations and maintenance of Phase 1 of the Mumbai Monorail. The Phase 1 operation has transported more than 19.5 million passengers with a reliability rate of over 97%. Phase 1's performance reflects SEB's capabilities in providing a complete end-to-end proposition which includes operations and maintenance.

For Phase 2, civil construction has been completed with the interior works ongoing and targeted for completion within the year. Testing and commissioning of the system is currently ongoing. Phase 2, which spans 10.76 kilometres from Wadala to Jacob Circle with 10 stations is anticipated to start commercial operations by the second half of FY2018.

The complete Mumbai Monorail network will provide East-West city connectivity and when the full corridor is active, it is anticipated that ridership will quadruple.

In Brazil, works on Line 17 – Gold Sao Paulo monorail project continue to progress. In FY2017, SEB was also requested by the Government of Sao Paulo to fast-track the project to completion as several consortium partners were unable to meet their contractual obligations. Additional scope was added which saw the contract value increase by approximately RM500 million. SEB's involvement comprising both the original contract scope and additional works is to provide the design, systems integration, full rolling stocks and additional systems. All construction activities are projected to be completed in 2019.

With regard to Line 18 – Bronze Sao Paulo monorail project, we now await the notice to proceed from the State Government. Further, the construction on our 98,000sqm manufacturing facility in Taubaté, near the city of Sao Paulo, which is part of the development of Line 18, is also expected to proceed with the Line 18 project commencement. The RM70 million Brazilian facility will produce the rolling stock and bogies for both Lines 17 and 18 in Brazil. It is also able to build metro and light rail trains – an added advantage going forward.

In Malaysia, the company was working towards an amicable resolution with Prasarana Malaysia Berhad (“Prasarana”) for the resumption of works on the Kuala Lumpur Monorail Fleet Expansion project (“Project”). Thus far, SEB’s subsidiary, Scomi Transit Project Sdn Bhd (“STP”) has completed 83% of the Project with works consisting of civil works, wayside systems along the entire alignment, new signalling system for four-car trains and mixed fleet operations and delivery of six trains. Of which, five are in successful revenue service.

On 3 March 2017 the parties had arrived at a position that would have allowed for work to resume in the form of a Third Supplemental Contract (“TSC”). This included, amongst other things, agreement to allow STP’s contract price variations and claims for extension of time to be evaluated and determined by the Independent Consultant jointly appointed by both parties. The TSC would have commenced once STP satisfied four agreed conditions precedents.

Unfortunately upon the completion of the Conditions Precedent (“CP”) period on 3rd May 2017, a new dispute arose, when the client did not accept one of the four CP’s as required under the TSC. STP is now disputing the client’s position that the CP has not been fulfilled as required under the TSC, and has brought the matter to arbitration. We are pursuing all avenues to protect our rights under the contract and the rights of all our stakeholders.

On a separate note, in FY2017 SEB has submitted monorail bids in Thailand and Turkey. We also continue to be in active discussions with several parties from China, to explore opportunities in the China market as well as internationally. Additionally, we are also pursuing opportunities in the larger rail industry where we can contribute with our public transport experience and expertise.

Technology Developments

During the financial year, our engineers continue to seek opportunities to explore some of the latest technologies that can contribute towards the enhancement of our products. In a joint development with Nano Malaysia Berhad in adopting the nano-graphene technology, we are pleased to report that we have completed the proof of concept for the graphene-based supercapacitor packaging and currently exploring the options for testing and production.

In addition, we have also been working with Multimedia Development Corporation Sdn Bhd to explore the application of Internet of Things (IOT) technology to the transportation sector. On that note, together with Microsoft Malaysia, we are developing the train telematics system and have successfully completed the proof of concept.

Commercial Vehicles

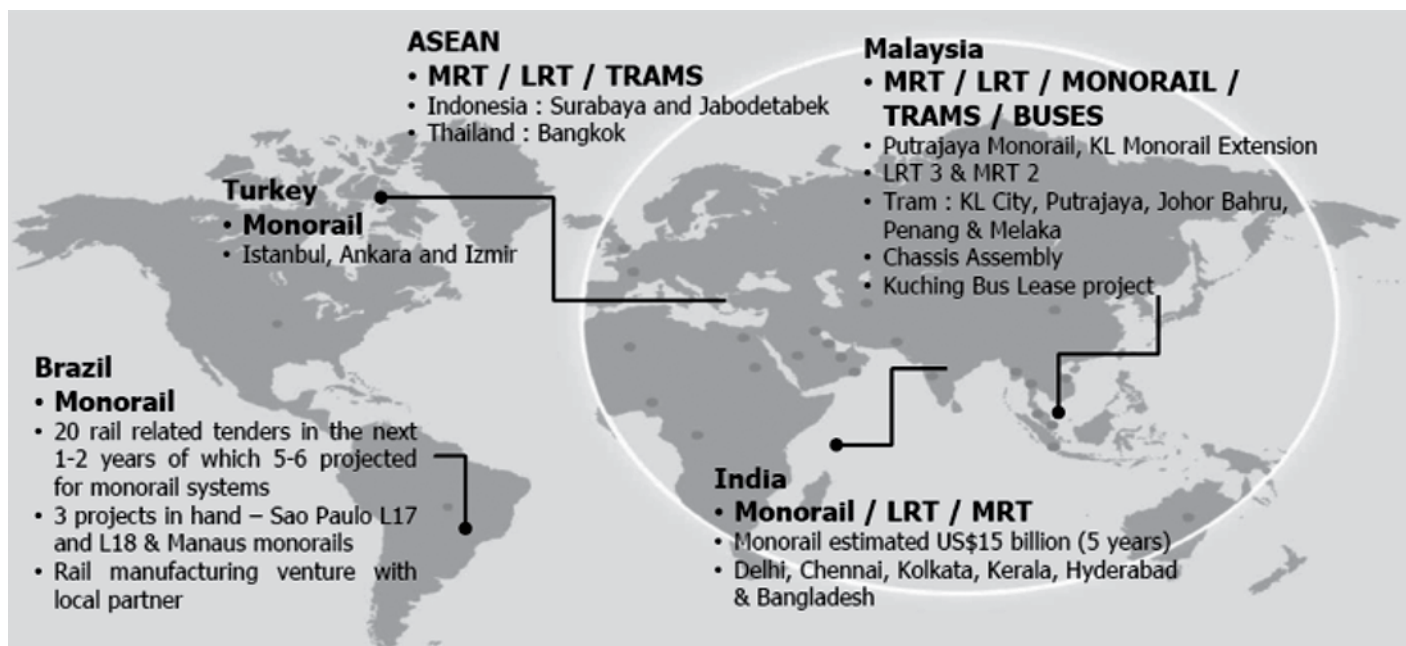
For the Commercial Vehicles business segment, the highlight was the delivery of buses for our client Volvo, for the MRT Sg Buloh-Kajang Line feeder bus system. As the coachbuilder, Scomi built and delivered the buses on target with the first set of 80 units in December 2016 and the balance 70 units in July 2017.

We also continued to deliver on our special purpose vehicles, especially our vacuum tankers for local clients as well as a client in Hong Kong. Further, we continue to work on our hazardous material (HAZMAT) and decontamination (DECON), units for Jabatan Bomba which are in the final stages of delivery.

Management Discussion & Analysis *(cont'd)*

OUTLOOK & PROSPECTS FY2018

While the financial year ahead is likely to remain challenging due to a less than stellar recovery in crude oil prices and economic growth in key markets, we foresee pockets of opportunity for SEB, fuelled by the growth in demand for mass public transportation and rising urban populations across the world, notably in developing countries.



Coupled with a growing shift for cleaner and greener technologies, FY2018 is likely to see the continued resurgence of interest in monorail systems. Across the region, monorails are being considered as an urban transportation solution for the future, either as primary people movers or as a feeder system within a larger integrated network.

In developing countries, many cities have grown quickly and exponentially resulting in not just congestion and high population densities, but often lack of space to introduce a mass rail network. This is another factor that works in favour for the monorail which has a smaller footprint and is able to navigate through existing structures due to its slim design.

We see this trend emerging across ASEAN and Asia with monorail projects in key cities in the region. ASEAN with its growing urban population and prosperity will naturally contribute to the rise of rail systems with the monorail being a top choice due to its lower cost and time to build, its reduced demand for land space and constantly improving technology that allows the system to evolve and become relevant to current needs.

Monorail systems have a number of unique features that enable them to be deployed in cities and along alignments where other modes are impossible or impractical. During the construction phase the disruption to the city is noticeably lower than other modes. Presently, monorail technology is capable of system capacities up to 55,000 passengers per hour per direction ("PPHPD") at costs of less than USD40 million / km. This makes the monorail the most cost effective urban rail transport system on the basis of cost / PPPHD / km, nevertheless, in our continuing quest for improvement, we are continuing to research ways to both reduce the cost and increase the capacity.

In the short-term, markets that offer SEB potential opportunities include Thailand, Turkey, Dubai, China, Sri Lanka, Philippines & Taiwan.

Recent policy updates in China have been in favour of the monorail. Cities regarded as tier 3 and tier 4 which are semi-urban cities with populations of up to 3 million will not have metros so monorail is a likely alternative. This potentially provides approximately 2800KM of new monorail lines alone.

Turkey has approved 6-8 monorail lines and we are optimistic of our prospects. In Thailand and Vietnam, we believe our proximity to the country will make us an attractive choice. Locally, with continued Government spending in rail systems, we foresee that as a Malaysian rail company, there would be opportunities for SEB to participate and benefit from the investment.

With regard to Commercial Vehicles, opportunities are also present as we anticipate the MRT Phase 2 and proposed Bus Rapid Transit solution will also be requiring feeder buses. SEB, having proven its capabilities is in a good position to capitalise on these prospects. However, we foresee competition to be intense as global players will expectedly vie for emerging opportunities, both in the monorail and commercial vehicles segments. Global players may offer not only a transport solution but also contribute to other aspects of a project such as project financing and transport oriented developments.

STRATEGIES GOING FORWARD

SEB's strategies in FY2018 will be to address present and expected challenges while capitalising on arising opportunities. We have strengthened our engineering and manufacturing position and are looking at our inherent strengths in manufacturing to be able to offer our customers either a complete solution or components of the solution.

We will continue to bid for all opportunities in our current business segments. SEB will consider participating as a first tier contractor, directly tendering for contracts or alternatively serving as a second tier contractor to provide engineering, manufacturing, and assembly and supply services.

Further in FY2018, we plan to continue the development of the next generation of monorail systems leveraging on new technologies such as nanotechnology, the Internet-of-Things and 3D printing. Moving to greener technology is a must and we are looking into the complete system to make it more eco-friendly and at the same time economical. We are also working with partners to develop global monorail standards especially for guideway infrastructure. Further, as the monorail is a straddle type system, emergency rescue operation has always been a critical consideration and we foresee will be an area of focus.

SEB is also looking to grow its facilities concession management services, particularly under the operations and maintenance. Within this scope, SEB is able to provide repair management, maintenance management, service and parts supply. With an experienced team, we are able to provide these services at our hub in Rawang or at our client's location.

To date, the Company has tendered for a total of RM3.3 billion worth of projects. Our order book stands at RM1.9 billion, and this gives us revenue visibility going forward.

Corporate Social Responsibility

INTRODUCTION

Corporate Social Responsibility (“CSR”) is a key tenet of the Company’s business philosophy. It guides our business objectives and our relationships with external and internal stakeholders. The Company remains committed to upholding its CSR spirit by focusing on its four key social pillars. They are:

- 1. The marketplace where we conduct our business**
- 2. Staff development at our workplace**
- 3. The community we operate in, and**
- 4. The environment in which we live in.**

Guided by our Corporate Statement, we continuously aim to realise the potential for our stakeholders: employees, customers, shareholders, suppliers, society and the macro environment.

We are of the view that CSR goes beyond mere altruism and has a fundamental place in the way organisations operate and conduct business. In essence, CSR is no longer just about how we do business and make profits, but is very much an enabling strategy to ensure long-term revenue and profitability growth; and ultimately business sustainability. Adopting a CSR mind-set will deliver sustainable value to stakeholders in the long term.

Given the strategic importance of CSR and business sustainability to the Company, oversight of this key focus area rests with the Chief Executive Officer, who is supported by the Head of Communications in cascading down the CSR objectives across to the employees. Staff’s participation in CSR activities are recorded and carries weightage points in their individual annual performance review, known as, Performance Assessment & Capability Enhancement (“PACE”).

REVIEW OF THE YEAR

OUR MARKETPLACE

With the strong commitment towards CSR, the Company is proud to play its part in espousing the appropriate values and conducting itself to the highest standards including ensuring ethical, fair and legal behaviour in all of its business dealings globally.

In addition to compliance with industry regulatory requirements, the Company enforces its own internal, stringent standards and requirements that govern its engagements and relationships with all stakeholders in the marketplace. One such example is the Company's Global Procurement Policy; which promotes an environment of fair-dealing and integrity in procurement activities to ensure proper demand and acquisition management.

The Company also adopts best business practices with regards to corporate governance, transparency and disclosure and risk management; and adopts policies designed to create a conducive work culture and workplace for all employees.

The Company continues to engage regularly with analysts, investors and the media. Periodic briefings are held with these parties to disseminate information on the Company's progress and achievements during the financial year. This is supplemented by announcements to Bursa Malaysia Berhad on material activities and events, distribution of quarterly "Letter to Shareholders" on the Company's financial performance to the related investment community and also media releases on key developments of our business.

Risk Policies

We are mindful of risks that are inherent in the business environment. Hence, our focus is to mitigate these risk factors through best practices and good corporate governance. Given that our business operates globally, our risk factors include both macro-economic factors as well as localised, niched ones.

On the global level, socio-economic and socio-political factors largely remain beyond the Company's control. Yet, we remain vigilant to any potential developments so that corrective action can be taken to avert potential issues.

Internally, the Company has instituted a robust risk management and corporate governance framework. This promotes a culture of checks and balances in reinforcing the importance of compliance and ensuring that risk is well mitigated.

PEOPLE DEVELOPMENT

Our people, the global Scomi workforce is the Company's greatest asset. The talent within powers the Company's competitive edge and allows other competences to flourish through technology and innovation, research and development ("R&D"), project management and execution and so on. Hence, it is imperative we continue to develop a conducive culture that allows our multi-national talent pool to flourish throughout the locations we operates.

For talent development, our training unit, known as Global Learning and Development ("GLaD") unit continues to oversee that all staff are given sufficient training and development opportunities to achieve improved job competence and ultimately career advancement. GLaD's role is to sharpen the skills of employees and also to provide the necessary guidance for them to develop their potential to achieve a satisfying career path within the Company.

Corporate Social Responsibility *(cont'd)*

In addition, all employees are put through the Performance Assessment and Capability Enhancement ("PACE") programme, a system that maps out mutually agreed key performance indicators ("KPIs") for all staff. PACE provides transparency on expected job responsibilities and outcomes. This presents a tangible and fair means for assessment of employees' performance during the year. Employees are clear on their roles within the organisation and are better motivated to perform towards the accomplishment of their duties. Employees are also given half yearly review sessions with their supervisors to ensure that both parties are aligned towards mutually agreed PACE KPIs that have been set in the beginning of the year.

Beyond the work scope, we have continued to find ways and means to provide a fun environment for staff. This includes organising various social and non-work related activities and programmes. Following is some of such activities held during the financial year:

- Festive gatherings for Ramadhan, Hari Raya Aidilfitri, Chinese New Year, Diwali and Year-End Celebrations for internal staff
- Staff's Cinema Day-Out – company sponsored movie nights for staff which was held twice last year

OUR COMMUNITY

As we operate in a global environment with multi-cultural communities, the Company is committed to adopt an inclusive and localised business strategy where the needs and aspirations of the local communities in the countries we operate in are considered and where possible, integrated into tactical plans going forward.

One good example of this is in Brazil, where we will establish a 98,000sqm manufacturing facility in Taubaté. The BRL\$50 million facility is part of our larger strategy to localise manufacturing of monorail trains towards optimising costs and efficiency as well as to boost local human capital development and provide employment. It is strategically located between the two most important Brazilian cities of São Paulo and Rio de Janeiro, with good access to major ports and road networks.

Through this facility, we develop local competences to support operations in Brazil. Importantly, we have firmly entrenched ourselves in this region to provide both training and employment opportunities which augurs well for the community and Scomi.

Apart from strategic initiatives, we have also undertaken various outreach and social welfare activities targeted at the underprivileged and marginalised members of the community. It is our view that as we progress, the fruits of socio-economic prosperity are shared with all members of the community.

The Company has undertaken the following community activities during the year under review:

- Cleaning & Tree Planting Day at Nur Sakinah Orphanage, Shah Alam, Selangor on 23 January 2016. Apart from cleaning and tree planting activities, we also arranged for a magic show for the orphans as well as donated in cash and kind in support of the Centre's upkeep.
- Beautification project at the Society of the Severely Mentally Handicapped FT & Selangor on 27 February 2016. A team of about 30 staff volunteered to spend a day with the underprivileged children at the Centre, while also undertaking a beautification project consisting of tree and flower planting at the premises.
- Co-coordinator for Dyslexia Malaysia's annual sport day on 26 March 2016. Reaching to special needs members of the community, the Company contributed sponsorship of the sports equipment and peripherals, provision of musicians cum dance troupes to entertain the children and the supply of 70 volunteers to assist the sport event. Staff also contributed in the fund-raising activity by selling food coupons.
- Food Distribution for the underprivileged with HOPE Malaysia, Selangor on 24 September 2016. Working together with HOPE Malaysia, the staff lent their assistance in the distribution of food for the event as well as conducted activities for the children in E-Learning, My-Reading and Creative Art programmes.

QUALITY HEALTH SAFETY & THE ENVIRONMENT

Within the transportation industry, the constant focus on Quality, Health, Safety and Environment (“QHSE”) is a paramount matter, akin to one’s licence to operate. Over the years, there is a greater emphasis placed on these parameters and the Company has continued to stay abreast of these evolving requirements.

To ensure employees’ awareness and importance of compliance to such policies and procedures, various channels such as face-to-face engagements, emails, quarterly QHSE newsletters are used to cascade related information throughout the organisation.

The Company’s HSE philosophy is governed by the following policies:

- Health, Safety & Environmental Policy
- Alcohol & Drug Policy
- Global Driving Policy
- Quality Policy Statement
- Stop Work Policy

Other initiatives to inculcate a strong organisation wide safety culture included the following:

- Safety Talk
- Health Talk
- Hazard Hunt Card
- Fire Prevention Awareness
- QHSE Housekeeping Walk-about
- 12 Safety Rules Campaign
- Emergency Response Awareness Campaign
- Road Safety Awareness Campaign

With a firm belief that QHSE begins and ends with each individual in the Group, various activities were organised for staff. These included a blood donation drive, a breast cancer awareness event, weight loss campaign and a “green” campaign with the latter aimed to create greater focus on appreciating the environment and adopting good practices in the office environment.

Further propagating the “green” consciousness among staff, a year-long campaign was held where a specific environmental theme was selected each month with external “green” enthusiasts or specialists invited to share their experiences and insights on the environment.

With regards to our transport business, we stand proud of our monorail systems which are inherently environmentally friendly compared to other modes of public transport. Our monorail has helped to alleviate traffic congestion and its many associated negative effects such as air and noise pollution, reduced fuel consumption and others. The system has also played a role in alleviating urban density – allowing people to live further away from the city centre and to commute to work, thus reducing the strain on urban resources.

Going forward, we plan to increase the “green” factor of our monorail through Nano technology and other means. The monorails of the future could potentially run on solar, occupy less space and even have EV charging pods for electric vehicles. Increasingly, trains will become more energy efficient as we improve the efficiency of the entire system. These and other “green” breakthroughs present an exciting, viable future for the Company while continuing to reflect our commitment towards being an eco-friendly organisation.

Going forward, we will continue to make CSR and business sustainability a pillar of our global business. Driven by innovation, spurred by global developments and inspired by our own conviction to create a better world for all stakeholders, we will continue to play our part of doing good through business in the best interest of society, the environment, and the workplace.

Statement on Corporate Governance

The Board of Directors (the “Board”) of Scomi Engineering Bhd (the “Company”) is committed to governing, guiding and monitoring the direction of the Company with the objective of enhancing long term sustainable value creation aligned to the interests of shareholders and other stakeholders.

The Board is mindful of its accountability to shareholders and other stakeholders and in order to steer the Company towards achieving sustainable business growth and to implement sound corporate governance practices throughout the Group, the Board strives to ensure that the highest standards of corporate governance are practiced by the Company and its group of companies (the “Group”) at all times and views this as a fundamental part of discharging its roles and responsibilities.

This Corporate Governance statement sets out how the Group has applied and complied with the principles and recommendations as set out in the Malaysian Code on Corporate Governance 2012 (the “Code”) and the Main Market Listing Requirement of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”) for the financial year ended 31 March 2017 (“FY2017”).

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

The Board is responsible for the oversight of overall control and management of the Company, whilst the Management manages the Company and the Group in accordance with the strategic direction and delegations of the Board. The Board bears ultimate responsibility for the Company’s values and actions.

The Board is responsible for setting the corporate goals of the Group and for mapping medium and long term strategic plans, which are reviewed on a regular basis, in tandem with the Group’s performance and implementation of the management’s action plans, to assess the progress made towards achieving the overall goals of the Group.

The Group is led and controlled by an effective Board which assumes, amongst others, the following principal roles and responsibilities in discharging its stewardship role and fiduciary and leadership functions:

- (a) reviewing and adopting a strategic plan for the Company and the Group;

The Board constructively challenges and contributes to the development of the Company and the Group’s strategic directions, and subsequently monitors the implementation of the strategic business plan by the Management to ensure sustainable growth and optimisation of returns for the Company and the Group.

The Group has in place an annual strategy planning session, whereby the Management presents to the Board its recommended strategy and proposed strategic business plans for the upcoming financial year. At the annual strategy planning and budget Board meeting, the Board reviews and deliberates upon the proposed strategic business plans for the upcoming financial year as well as probes Management to ensure Management has taken, and suggests Management to take, into consideration the varying opportunities and risks whilst developing the strategic business plan.

In conjunction with this, the Board also reviews and approves the proposed annual budget for the upcoming financial year and the key performance indicators (“KPIs”) for the Corporate Balanced Scorecard (“BSC”) as prepared and presented by the Management.

The strategy planning session for financial year ended 31 March 2017 ("FY2017") began at the Pre-Global Executive Meeting held in October 2015 whereby the Management team had robust discussions to formulate the strategy for the Group, the proposed 3-year strategic business plan and the proposed FY2017 budget. Subsequently, at the Board Away Day held in January 2016, all the Senior Management were invited to this dedicated strategy session with the Board, to provide a comprehensive briefing to the Board, followed by open debate, on the Global perspective to the overall strategy of the Group and each business units, the proposed 3-year strategic business plan, the proposed FY2017 budget and the proposed Corporate BSC. The objectives of the Board Away Day are to provide the Board an update of our industries' present and future trend, as a platform for discussion on business direction based on industry future, agree on high level strategic direction and discussion on the execution issues as well as the mitigation plans. The Board provided its guidance and feedback on the proposals presented for the Management to further refine its plan before presenting the same to the Board for approval.

Post the strategy session with the Board, the Management finalised and presented its proposed 3-year strategic business plan, the proposed FY2017 budget and the proposed Corporate BSC for the Board's review and approval at the Board meeting held in March 2016. The Board deliberated on the strategic directions, the 3-year strategic business plan, the proposed FY2017 budget and the proposed Corporate BSC of the Company and the Group, challenged the Management's views and assumptions for the delivery of the strategic plan, and discussed and agreed upon the expectations of the Board with the Management.

The proposed 3-year strategic business plan, the proposed FY2017 budget and the proposed Corporate BSC were subsequently approved by the Board in March 2016.

- (b) overseeing and evaluating the conduct and performance of the Company and the Group's business;

The Chief Executive Officer ("CEO") has overall responsibility, with the support of the Key Management Team, for the day-to-day management of the business and operation of the Group as well as the implementation of the Board's policies, directives, strategies and decisions.

On a quarterly basis, the CEO reviews the Group's key financial performance metrics with both the Audit and Risk Management Committee of the Board ("ARMC") and the Board and highlights concerns and issues, if any, faced by the Group. The actual performance of the Group is assessed on a quarterly basis against the approved FY2017 budget, the results of the corresponding quarter of FY2016 and the immediate preceding quarter. Where

significant variances in the performance results are reported by the Management to the ARMC and the Board, it is accompanied with explanations, clarifications and the corrective action taken.

Besides this, the ARMC and the Board were also informed by the Management of the key initiatives and significant operational issues. A summary of the performance of each business unit is also provided to the Board. The relevant members of the Management attended the ARMC and/or Board meetings to support the CEO in presenting the updates on the progress of key initiatives, business targets and achievements to date, and to provide clarification on the challenges and issues faced by the Management and business units.

- (c) identifying principal risks of the Company and the Group and ensuring the implementation of appropriate internal controls and mitigation measures to manage these risks;

Whilst the Board has overall responsibility for the Group's risk management framework and internal controls system, it has delegated the implementation of the risk management framework and internal controls system to the Management and tasked the ARMC with the oversight responsibility to review the adequacy and effectiveness of the risk management framework and internal controls system.

However, the Board recognises that such systems are designed to manage and reduce the risks identified to acceptable levels. Therefore, the internal controls implemented can only provide reasonable and not absolute assurance against the occurrence of any material misstatement, loss or fraud.

The Management reports to the ARMC on a quarterly basis on all risks areas faced by the Group and the audit findings identified from the internal audit activities conducted by the Group Internal Audit Department ("GIA"). The ARMC then deliberates the actions taken by the Management to address those high risks areas and audit findings. The ARMC also acts as an intermediary between the Management or other employees, and the external auditors where the external auditors are invited to present to the ARMC the audit plan, the audit findings, the independent auditors' report as well as any other matters considered by the external auditors as important and requiring the ARMC's attention. The ARMC also conducts private meetings with the external auditors, to give opportunity to the external auditors to raise any matters without the presence of the Executive Board Member and Management. Minutes of the meetings of the ARMC which record the deliberations of the ARMC are presented to the Board.

The Chairman of the ARMC will also report to the Board on the principal risks and internal controls related matters and recommendations deliberated by the ARMC at the immediate subsequent Board meeting.

Statement on Corporate Governance *(cont'd)*

Details of the Enterprise Risk Management Framework and internal controls system of the Group are as set out in the Statement of Risk Management and Internal Control in this Annual Report.

- (d) reviewing the adequacy and the integrity of the management information, risk management and internal controls system of the Company and the Group;

The risk management and internal controls system of the Company and the Group is subject to the Board's regular review with a view towards appraising the adequacy, effectiveness and efficiency of such system within the Group and to ensure that these systems are viable and robust.

Details of the Enterprise Risk Management Framework and internal controls system of the Group are as set out in the Statement of Risk Management and Internal Control in this Annual Report.

- (e) overseeing management performance and ensure a sound succession plan for key positions with the Company;

The Board, through the Nomination and Remuneration Committee ("NRC"), develops and agrees the CEO's BSC with the CEO based on the strategic objectives, measures and KPIs which are aligned to the Group's corporate goal and strategic business plan set by the Board.

Following the determination of the measures and KPIs for the CEO, the same will be cascaded down to her direct reports. The CEO reviews the progress of achievements of the KPIs or initiatives as set out in the BSC of her direct reports on a monthly basis, allowing for timely response and corrective action to be taken to catch up to their targeted plan. These achievements are then flowed into the CEO's BSC which, together with the summary of achievements by her direct reports, are reviewed quarterly by the ARMC via the Risk Management Report presented.

In discharging its responsibility on succession planning, the NRC and the Board receive updates on the succession plan for management from the Head of Group Human Resources ("Group HR") and assurance from the CEO that all candidates appointed to the Senior Management positions are of sufficient calibre and are satisfied that there are programmes in place to provide for the orderly succession of Senior Management.

The Head of Group HR was invited to the NRC meeting held in April 2016 to present the current business and organisation structure of the Group, the Job Fitting for our organisation and business requirements, the strategy in succession planning, the assessment methodology used for the BSC and competencies assessment.

The NRC is also tasked by the Board to evaluate the performance of the CEO against the approved KPIs or initiatives as set out in the BSC of the CEO at the end of each financial

year. Subsequently, the NRC provides the Board with its recommendation for the CEO's performance evaluation at the end of the financial year, for decision.

- (f) overseeing the development and implementation of the investor relations and shareholder communications policy for the Company and the Group.

Recognising the importance of accurate and timely public disclosures of corporate information in order for the shareholders to exercise their ownership rights on an informed basis, the Board has established a Global Communications Policy.

To enhance the Board and the Management's accountability to the Company and its shareholders, the Board has established clear functions reserved for the Board and those delegated to the Management. The Board operates under a Board Charter and Board Policy Manual, which establishes a formal schedule of matters and outlines the types of information required for the Board's attention and deliberation at the Board meetings. The Board Charter is available on the Company's website at www.scomiengineering.com.my.

To ensure the effective discharge of its functions and responsibilities, the Board has delegated specific responsibilities to the relevant Board Committees, CEO and Management through a clear and formally defined written terms of reference ("TOR") and delegated authority limits ("DAL"), which are the primary instruments that govern and manage the decision-making process in the Group. Whilst the objective of the DAL is to empower Management, the key principle adhered to in its formulation is to ensure that a system of internal controls and checks and balances are incorporated therein. The TOR and DAL are continuously reviewed and updated to ensure their relevance to the Group's operations as well as for compliance with legislation and standards.

The Board Charter, TORs, DAL and all other policies and procedures of the Company are reviewed as and when required, to ensure a relevant and optimum structure for efficient and effective decision making in the organisation. The Board Charter, TORs, DAL and all policies and procedures of the Company, if relevant, are adopted by the subsidiaries to ensure that their corporate practices are aligned with the strategies of the Company.

The Board has established two (2) committees of the Board, namely the ARMC and the NRC, which operate within clearly defined written TOR. The Company's Employees' Share Options Scheme expired on 25 January 2016 and as such, the Options Committee was dissolved on 27 May 2016. The Board Committees deliberate issues on a broad and in-depth basis before putting up any recommendation to the Board for decision. Notwithstanding the existence of the Board Committees and the relevant authorities granted to a committee under its TOR, ultimate responsibility for the affairs of the Company and decision-making lies with the Board. The Board keeps itself abreast of the significant matters and resolutions deliberated by each Board Committee through the reports by the Chairman of the relevant Board Committees and the tabling of the Minutes of the Board Committee meetings and circular resolutions passed by each Board Committee at the immediate

subsequent Board meeting. The Board is satisfied that the ARMC and NRC have effectively and efficiently discharged their roles and responsibilities with respect to their functions as defined in the respective TOR. As such, there is no need to separate the audit, risk management, nomination and remuneration functions into distinct committees.

The composition of the Board and its Committees is as follows:

	Board Committees	
	ARMC	NRC
Chairman/Independent Non-Executive Director		
Datuk Zainun Aishah Binti Ahmad	-	C
Independent Non-Executive Directors		
Dato' Ikmal Hijaz Bin Hashim	C	-
Tunku Alizan Bin Raja Muhammad Alias	M	M
Mr Liew Willip	M	-
Non-Independent Non-Executive Directors		
Mr Lee Chun Fai ⁽¹⁾	-	-
Mr Kanesan A/L Veluppillai ⁽²⁾	-	M
Mr Cyrus Eruch Daruwalla ⁽³⁾	-	-
Non-Independent Executive Director		
Encik Shah Hakim @ Shahzanim Bin Zain ⁽⁴⁾	-	M

Notes:

C - Chairman M - Member

(1) Resigned as a Non-Independent Non-Executive Director on 23 May 2016.

(2) Appointed as a member of the NRC on 1 April 2017.

(3) Appointed as a Non-Independent Non-Executive Director on 23 May 2016.

(4) Re-designated from a Non-Executive Director to an Executive Director and resigned as a member of the NRC on 1 April 2017.

In discharging its duties and responsibilities, the Board is also guided by the Code of Conduct of the Group which provides the framework to ensure that the Group conduct itself in compliance with laws and ethical values. The Board and all employees of the Company and the Group are committed to adhering to best practices in corporate governance and observing the highest standards of integrity and behaviour in all activities conducted by the Company and the Group, including the interaction with its customers, suppliers, shareholders, employees and business partners, and within the community and environment in which the Company and the Group operate. The Board ensures that compliance is monitored through a Confirmation of Compliance declaration process where all employees of the Group of grades 15 and above are required to confirm their receipt and understanding of the Code of Conduct and further to certify their continued compliance with the Code of Conduct on an annual basis. This serves to drive organisational culture and continuing awareness amongst the employees of the need to understand, develop and maintain a value-based culture beyond mere compliance.

It is a condition of appointment and/or employment with the Group that the Board and all employees of the Group to comply with the Code of Conduct and all applicable laws, regulations and other policies of the Group and failure to comply may result in the commencement of disciplinary proceedings that may lead to termination of appointment and/or employment.

The appropriateness and effectiveness of the Code of Conduct of the Group are continuously monitored and appropriate agreed improvements and reporting procedures will be adopted where necessary. The Code of Conduct is available on the Company's website at www.scomiengineering.com.my.

The Group is also committed to openness, probity and accountability. An important aspect of accountability and transparency is the existence of a mechanism to enable employees of the Group to voice their concerns in a responsible and effective manner. It is a fundamental term of every contract of employment that an employee will faithfully serve his employer and not disclose confidential information about the employers' affairs. Nevertheless, where an

Statement on Corporate Governance *(cont'd)*

individual discovers information which he believes shows serious malpractice or wrongdoing within the organisation, there should be internal mechanisms to enable him to safely report, in good faith, on any suspected breaches of the law or company procedure that has come to his notice.

To address this concern, the Group has formalised and established a Whistleblower Framework and Policy, to provide an avenue for employees to raise genuine concerns internally or report any breach or suspected breach of any law or regulation, including the Group's policies and procedures, to the Disclosure Officer in a safe and confidential manner, thereby ensuring that employees may raise concerns without fear of reprisals. The Whistleblower Steering Committee has been tasked by the Board to oversee the implementation of the Whistleblower Framework and Policy, whilst duties relating to the day-to-day administration of the policy are performed by the Disclosure Officer. The Whistleblower Framework and Policy is subject to periodic assessment and review to ensure that it remains relevant to the Group's changing business circumstances. The Group has also put in safeguards to protect the identity of the Whistleblower to encourage employees of the Group to report any breach or reasonably suspected wrongful malpractices without fear of reprisal so that the problem can be identified at an early stage and resolved quickly within the Group. The Whistleblower Framework and Policy is available on the Company's website at www.scomiengineering.com.my.

The Board is cognisant of the importance of business sustainability and, in managing the Group's business, take into consideration its impact on the environment and society in general. Balancing the environment, social and governance aspects with the interest of various stakeholders is essential to enhancing investor and public trust. We acknowledge our responsibility to all the lives we touch either directly or indirectly, and are committed to making a positive impact in the many communities where we have a presence while further strengthening our corporate reputation via upholding a culture of integrity and transparency. Over the years, our approach towards corporate social responsibility has become progressively more holistic, evolving from individual acts of philanthropy to becoming a mindset that influences business decision and strategy. We further ensure that this mindset is shared among all our employees by reinforcing the principles of integrity and corporate citizenry in our training and internal communication, and encouraging a spirit of volunteerism across our operations globally. Apart from the Code of Conduct, the Group has in place other internal policies and procedures to address corporate sustainability. We also realise that, given the nature of the businesses we are involved in, we can make a positive impact on the environment. Hence, we invest significantly in research and development to develop 'green' products that are efficient, cost-effective and, most importantly, environmentally friendly. The Board also strives to promote conservation and encourages a paperless environment for all Board and Board Committees meetings, where digital access is given to meeting papers to save on the distribution of hard copies.

Every Director has full, free and unrestricted access to information within the Group. Where required, the Board and its Committees are provided with independent professional advice or other advice in furtherance of their duties, the cost of which is borne by the Company. The Board may also seek advice from the Management or request further explanation, information or update on any aspect of the Group's operations or business concerns. The Board is supplied with quality and timely information, which allows it to discharge its responsibilities effectively and efficiently. The agenda for each meeting together with a set of comprehensive Board Papers for each agenda item are delivered to each Director in advance of meetings, to enable the Board sufficient time to review the matters to be deliberated for effective discussion and decision making during the meeting, and where necessary, to obtain supplementary information before the meeting.

In addition, the Directors have full and unrestricted access to the advice and dedicated support services of the company secretary appointed by the Board. The Company Secretary, who is qualified, experienced and competent, advise the Board on procedural and regulatory requirements to ensure that the Board adheres to the Company's constitution, board policies, procedures and regulatory requirements in carrying out its roles and responsibilities effectively.

PRINCIPLE 2 – STRENGTHEN COMPOSITION

The success of the Board in fulfilling its oversight responsibility depends on its size, composition and leadership qualities.

The Articles of Association of the Company provides for a minimum of two (2) directors and a maximum of ten (10) directors. At any one time, at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, shall be Independent Directors, who are to provide independent judgment, experience and objectivity to the Board deliberations so that the interests of all shareholders are taken into account by the Board. The Directors shall elect a Chairman among themselves who shall be a Non-Executive Director.

During the financial year under review, the Board consisted of seven (7) members, all of whom are Non-Executive Directors (including the Chairman) and of which four (4) are independent as defined by the Listing Requirements. During this period, the Independent Directors made up 57% of the composition of the Board. Hence, the composition of the Board fulfils the prescribed requirement for one-third (1/3) of the Board to be Independent Directors. The appointment of Independent Directors is to ensure that the Board includes directors who can effectively exercise their best judgment objectively for the exclusive benefit of the Company and the Group.

The composition of the Board reflects a diversity of backgrounds, skills and experiences in the areas of business, economics, finance, legal, general management and strategy that contributes effectively in leading and directing the management and affairs of the Group. Given the calibre and integrity of its members and the objectivity and independent judgment brought by the Independent Directors, the Board believes its current size and composition contribute to an effective Board.

The Company has also appointed an Independent Non-Executive Director of the Company as the Senior Independent Director of the Company. The main duties and responsibilities of the Senior Independent Director of the Company are to serve as the point of contact between the Independent Directors and the Chairman on sensitive issues and to act as a designated contact to whom shareholders' concerns or queries may be raised, as an alternative to the formal channel of communication with shareholders. For any concerns or queries regarding the Group, the shareholders may convey to the Senior Independent Director of the Company via the following channels:

Mail : **SCOMI ENGINEERING BHD**
Level 17, 1 First Avenue
Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan
Malaysia
Attention : Dato' Ikmal Hijaz Bin Hashim,
Senior Independent Director

Fax : +603 7728 5258

Email : info.seb@scomigroup.com

A brief description of the background of each Director is as set out in the Profile of Directors section of this Annual Report.

The NRC established by the Board is tasked to:

- ensure an effective process for selection of new directors and assessment of the effectiveness of the Board and Board Committees and the performance of individual directors which will result in the required mix of skills, experience and responsibilities being present on the Board;
- establish, review and report to the Board on a formal and transparent policy on Executive Directors' remuneration; and
- review and recommend to the board the remuneration of the Executive Directors in all its forms with the aim of attracting, retaining and motivating individuals of the highest quality needed to run the Company successfully.

The members of the NRC are appointed by the Board based on recommendations from the NRC and comprise at least three (3) members who are all non-executive, a majority of whom are independent directors. Members of the NRC elect a Chairman from among themselves who is an Independent Non-Executive Director. All members of the NRC, including the Chairman, shall hold office only so long as they serve as Directors of the Company.

Members of the NRC may relinquish their membership in the NRC with prior written notice to the Company Secretary. The NRC reports its recommendations back to the Board for its consideration and approval. In the event of any vacancies arising in the NRC resulting in the number of members of the NRC falling below three (3), the vacancy should be filled within three (3) months of it arising. The NRC meets at least once during a financial year. In the interim period between meetings, if the need arises, issues shall be resolved through circular resolution. A circular resolution in writing, stating the reason(s) to arrive at a recommendation or resolution, signed by a majority of the members, shall be valid and effective as if it had been passed at a meeting duly convened and constituted.

The duties and responsibilities of the NRC are set out in the TOR of the NRC which is available at the Company's website at www.scomiengineering.com.my.

The appointment of directors is a vital process as it determines the composition and quality of the Board's mix of skills and competencies. The nomination and appointment of new directors takes place within the parameters set out in the TOR of the NRC and the Board Composition Policy.

The Board, through the NRC undertakes an annual assessment of the Board as a whole and each individual Directors' performance. This includes a review of the desirable mix of competencies, qualification, knowledge, skills, expertise and personal characteristics of Directors and any gaps that exist in the optimum mix of skills required for the Board.

When it is determined that a new director is necessary to complement existing Directors, the Board first determines the target knowledge, skills and personal characteristics sought. Such criteria ensure that all candidates are fairly and equitably considered and evaluated irrespective of, amongst others, sex, race, sexual orientation, age, disability, and religion or ethnic origin in compliance with the Company's Code of Conduct.

The NRC is then tasked with the responsibility of searching for and making a recommendation in relation to the appointment of a director. It goes about this task in one of two ways. It may use the wide network of people known to its members to identify possible candidates or it may brief a search consultant on the target knowledge, skills and personal characteristics sought then obtain a 'short list' of candidates. The Chairman of the NRC then interviews such shortlisted candidates.

Statement on Corporate Governance *(cont'd)*

The Chairman of the NRC shall make a recommendation to the NRC, which in turn shall make a recommendation to the Board. In making these recommendations, the NRC shall ensure an effective process for the selection of new directors to the Board.

Based on the recommendations of the NRC, the Board shall have power at any time and from time to time, to appoint any person to be a director of the Company, either to fill a casual vacancy or as an addition to the existing Board subject to the maximum number fixed in the Articles of Association of the Company.

During the financial year under review, the NRC has reviewed the curriculum vitae of Mr Cyrus Eruch Daruwalla, and is satisfied that based on his skills, expertise and experience, he would be able to contribute significantly to the Board. The Board approved the NRC's recommendations and Mr Cyrus Eruch Daruwalla was appointed to the Board as a Non-Independent Non-Executive Director on 23 May 2016. As the newly appointed director shall hold office until the next Annual General Meeting ("AGM") of the Company, Mr Cyrus Eruch Daruwalla, being eligible and offering himself for re-election, was re-elected at the 32nd AGM held on 17 August 2016 ("32nd AGM").

In accordance with Article 80 of the Articles of Association of the Company and Paragraph 7.26(2) of the Listing Requirements, at least one-third (1/3) of the Board is subject to retirement by rotation at each AGM and a retiring director shall retain office until the close of the AGM of the Company at which he retires. Pursuant to Article 80 of the Articles of Association of the Company, Datuk Zainun Aishah Binti Ahmad and Dato' Ikmal Hijaz Bin Hashim retired from the Board and were re-elected at the 32nd AGM.

Based on the chronology of the Directors' appointment to the Board, the following directors shall retire by rotation in accordance with Article 80 of the Articles of Association of the Company:

- (a) Tunku Alizan Bin Raja Muhammad Alias; and
- (b) Encik Shah Hakim @ Shahzanim Bin Zain.

For the purpose of determining the eligibility of the Directors who are standing for re-election or re-appointment at the 33rd AGM to be held on 22 August 2017, the Board, via the NRC, has conducted an assessment on the performance and contribution of each of the Directors concerned and the review of the mix of skills, experience and competencies of the Directors concerned and collectively agree that they meet the criteria of character, experience, integrity, competence and time to effectively discharge their respective roles as Directors, as prescribed by Paragraph 2.20A of the Listing Requirements. The profiles of these Directors are set out in this Annual Report.

Upon the recommendation by the NRC, the Board has pleasure in proposing the re-election of Encik Shah Hakim @ Shahzanim Bin Zain, who being eligible, offers himself for re-election at the forthcoming AGM of the Company.

Tunku Alizan Bin Raja Muhammad Alias has informed the Board that he does not wish to seek re-election at the forthcoming AGM of the Company. The Board notes that Tunku Alizan Bin Raja Muhammad Alias has served on the Board for 3 years and thanks him for his invaluable contribution to the Board as a Director and as a member of the ARMC and NRC.

The NRC is also responsible for reviewing candidates for appointment to the Board Committees and makes appropriate recommendations thereon to the Board for approval.

It is tasked with assessing the effectiveness of the Board and Board Committees and the performance of individual directors to ensure that the required mix of skills and experience are present on the Board. In the course of assessing the effectiveness of the Board and the Board Committees and the contributions of each individual director, the NRC also evaluates and determines the training needs for each of the Directors in order to equip them with the necessary skills and knowledge to keep up with industry developments and trends in meeting the challenges of the Board and aid them in the discharge of their duties as directors. The Company had provided in-house training for Directors on specific topics relating to Nano Technology and Transport Solutions to ensure that the Board stays current with the technology development and commercial and marketability of our products and services.

The NRC together with the CEO, representing the Management, collectively conducted the assessments of the effectiveness of the Board and its Committees and the performance of each individual Director, which considered the qualification, contribution and performance of Directors taking into account their competencies, character, commitment, integrity, experience and time expended in meeting the needs of the Group. The effectiveness of the Board was assessed internally and facilitated by the Company Secretary. The Chairman of the NRC discussed the NRC's assessment of the performance of each individual Director with the Directors concerned on a one-to-one basis for their information and further development. All assessments and evaluations carried out by the NRC in the discharge of its functions are properly documented, summarised and reported to the Board.

To promote boardroom diversity, the NRC has taken various actions to source for suitable and calibre female candidates to the Board. The search for potential female candidate(s) with relevant experience and skill sets is still ongoing.

During the financial year under review, the NRC consisted of three (3) members, who are all non-executive directors and a majority of whom are independent directors. In accordance with the approved TOR of the NRC, the NRC carried out the following activities during the FY2017:

- assessed the annual performance of each individual Director;
- assessed the continued independence of each Independent Director;
- reviewed the skills, experience and competencies of each individual Director and based thereupon, assessed the training needs of each individual Director;
- assessed the effectiveness of the Board, the ARMC and other Committees of the Board;
- reviewed the skills, experience and competencies of the Non-Executive Directors;
- assessed the adequacy of the size and composition of the Board;
- reviewed the proposed remuneration for the Non-Executive Directors of the Company;
- reviewed the retirement and re-election of the Directors pursuant to the Articles of Association of the Company;
- evaluated and recommended to the Board the CEO's BSC for the financial year under review;
- reviewed and recommended to the Board the CEO's BSC for the new financial year;
- reviewed and recommended to the Board the mechanism for assessment of the CEO's BSC; and
- reviewed and recommended to the Board the appointment of a new Director as well as the change in composition of a Board Committee.

The NRC is also responsible for the review of the overall remuneration policy for the Directors whereupon recommendations are submitted to the Board for approval. The NRC advocates a fair and transparent remuneration policy framework such that the Group may attract, retain and motivate high quality Directors. Besides the remuneration practices and trends by other similar players in the market, the level of Directors' remuneration is also attributed to a few key factors, amongst them, qualification, experience and responsibilities of the Directors to the Board and Board Committees.

The Non-Executive Directors are paid by way of fees for their services, as from time to time determined by the Company in AGM and are not compensated based on the Company's (Group's) performance and results as this may impair the Directors' objectivity and independence, particularly when asked to endorse risky business decisions that

may have a vast upside potential. The Non-Executive Directors are reimbursed for all their travelling, hotel and other expense properly and necessarily expended by them in and about the business of the Company and are paid meeting allowances together with travelling and other expenses incurred, in attending the meetings of the Board or any Board Committees of the Company. In addition, the Company also provided Directors' and Officers' Liability Insurance for Directors of the Group. However, the said insurance policy will not indemnify the Director against, any liability which by law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust. The Executive Director is not entitled to the abovementioned Director's fee nor any meeting attendance allowances. During the financial year under review, the Board comprised seven (7) members, all of whom are Non-Executive Directors.

Section 230(1) of the Companies Act, 2016 (the "Act") provides amongst others, that "any benefits" payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting. In view that the "benefits payable to the directors" under the Act is not defined by the act itself, the Board approved the NRC's recommendation to seek the approval of the shareholders for the benefits payable to the directors for the period commencing 31 January 2017 until the next AGM of the Company ("Relevant Period") at the forthcoming AGM of the Company in accordance with the remuneration structure set out below:

Type of Benefit	Chairman (RM/meeting)	Non-Executive Directors (RM/meeting)
Meeting Allowance		
• Board Meeting	1,000	1,000
• ARMC Meeting	1,000	700
• NRC Meeting	1,000	700

The estimated benefits payable to the Directors for the Relevant Period are expected to come up to approximately RM150,000.00. In determining the estimated total benefits payable to the Directors for the Relevant Period, the size of the Board and Board Committees and the number of scheduled meetings of the Board and Board Committees to be held during the Relevant Period based on the above remuneration structure were taken into consideration.

The Board is of the view that it is just and equitable for the Non-Executive Directors to be paid the Directors' remuneration (excluding Directors' fees) as and when incurred, particularly after they have discharged their responsibilities and rendered their services to the Company throughout the Relevant Period.

Statement on Corporate Governance *(cont'd)*

The structure of the remuneration package for the Non-Executive Directors was last revised by the Board in respect of the financial year ended 31 December 2009 and since then the remuneration package for the Non-Executive Directors has remained unchanged. In view of the current challenges faced by the Group, although the Non-Executive Directors are burdened with increasing tasks, responsibilities and liabilities as well as tighter corporate and capital market rules and regulations, the Board concurred with the recommendation of the NRC to maintain the same remuneration structure and Directors' fees for the Non-Executive Directors in respect of the FY2017, which is tabled for the approval of the shareholders at the forthcoming AGM of the Company. The aggregate remuneration paid to the Directors of the Group who served during the financial year, and the bands, is as follows:

	Executive Director (RM'000)		Non-Executive Directors (RM'000)		Total (RM'000)
	Group	Company	Group	Company	
Salaries and bonuses	-	-	-	-	-
Defined contribution plan	-	-	-	-	-
Fees	-	-	332*	332*	332*
Allowances	-	-	56	56	56
Estimated value of benefit-in-kind	-	-	-	-	-
Total:	-	-	388	388	388

* The proposed Annual Directors' Fees are subject to the shareholders' approval at the forthcoming AGM of the Company.

The aggregate remuneration above is categorised into the following bands:

	Executive Director	Non-Executive Directors	Total
RM0 to RM50,000	-	2	2
RM50,001 to RM100,000	-	5	5
Up to RM150,000	-	-	-

PRINCIPLE 3 – REINFORCE INDEPENDENCE

The roles of the Chairman and the CEO are held by two separate individuals and are distinct and separate with each having a clear scope of duties and responsibilities to ensure there is a balance of power and authority. The division of the responsibilities of the Chairman and the CEO has been clearly defined in the Board Charter of the Company.

The Chairman is responsible for the leadership, effectiveness, conduct and governance of the Board, while the CEO has overall responsibility, with the support of the Key Management Team, for the day-to-day management of the business and operations of the Group as well as the implementation of the Board's policies, directives, strategies and decisions. This crucial partnership dictates the long-term success of the Company and the Group.

In general, the tenure of an Independent Director shall not exceed a cumulative term of nine (9) years. However, pursuant to our Board Composition Policy, it has been determined that this general rule shall not be applicable to any Independent Director, who is holding office as the chairman of the Company or any subsidiary that is listed on any securities exchange. In such case, the Director concerned shall be deemed an Independent Director provided:

- (a) he fulfils the criteria set out in the definition of "Independent Director" set out in the Listing Requirements or the relevant regulations governing entities listed on such other securities exchange; and
- (b) he provides confirmation in writing that he is independent of the Management, the Board and major shareholders and is free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of the Company and the Group.

In line with the recommendation 3.1 of the Code, the Board, through the NRC, has assessed the independence of each Independent Director annually. All the Independent Directors had given their confirmation on their independence pursuant to the Listing Requirements and responses had been collated by the Company Secretary. Taking into consideration interests disclosed by each Independent Director and having regard to the criteria for assessing the independence of Directors under the annual Board assessment, the Board Composition Policy of the Company and the Listing Requirements, the Board is satisfied with the level of independence demonstrated by all the Non-Executive Directors and their ability to act in the best interests of the Company during deliberations at Board meetings. Further, the Board had recommended that Datuk Zainun Aishah Binti Ahmad continue to act as Independent Non-Executive Director of the Company based on the following justifications:

- (a) that she continues to fulfil the criteria set out in the definition of "Independent Director" in the Listing Requirements;
- (b) that her vast experience and expertise enable the Board to discharge its duties effectively and in a competent manner;
- (c) that although she has served the Company as Independent Director for a cumulative term of more than nine (9) years, she has at all times acted in the best interest of the Company, providing independent views to the deliberations and decision making of the Board and Board Committees and fully understands and provide critical oversights over the Company's objective and strategies as well as the business operations of the Company and the Group;
- (d) she has proven to be reliable Independent Director with her professionalism, aptitude and business outlook and perspective, devoted sufficient time and attention to her professional obligations for informed and balance decision-making and has also exercised due care and diligence during her tenure in the best interest of the Company and the shareholders; and
- (e) she has provided confirmation in writing that she is independent of the Management, the Board and major shareholders and is free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of the Company and the Group.

The Board noted the Board Composition Policy which, whilst limiting the tenure of Independent Directors to a cumulative term of nine (9) years, an exception is made to any Independent Director holding office as the chairman of the Company or any subsidiary that is listed on any securities exchange. However, notwithstanding this Policy and for the sake of good corporate governance, the Board will seek the shareholders' approval at the forthcoming AGM of the Company for Datuk Zainun Aishah Binti Ahmad to continue to act as Independent Director of the Company.

PRINCIPLE 4 – FOSTER COMMITMENT

The schedule of meetings of the Board and its Committees as well as the AGM is prepared and circulated to the Board before the beginning of the year to facilitate the Directors in planning ahead. Special meetings of the Board and its Committees are convened between the scheduled meetings as and when urgent and important direction from and/or decisions of the Board and/or its Committees are required.

Statement on Corporate Governance *(cont'd)*

During the FY2017, seven (7) Board Meetings were held. The Board is satisfied with the level of commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of the Company. The attendance record of the Directors at the meetings of the Board and its Committees is as follows:

	MEETING ATTENDANCE (attended/held)		
	BOARD	ARMC	NRC
Chairman/Independent Non-Executive Director			
Datuk Zainun Aishah Binti Ahmad	7/7	-	2/2
Independent Non-Executive Directors			
Dato' Ikmal Hijaz Bin Hashim	5/7	6/8	-
Tunku Alizan Bin Raja Muhammad Alias	7/7	6/8	2/2
Mr Liew Willip	7/7	8/8	-
Non-Independent Non-Executive Directors			
Mr Lee Chun Fai ⁽¹⁾	-	-	-
Mr Kanesan A/L Velupillai ⁽²⁾	6/7	-	-
Mr Cyrus Eruch Daruwalla ⁽³⁾	4/7	-	-
Non-Independent Executive Director			
Encik Shah Hakim @ Shahzanim Bin Zain ⁽⁴⁾	7/7	-	2/2

Notes:

- (1) Resigned as a Non-Independent Non-Executive Director on 23 May 2016.
- (2) Appointed as a member of the NRC on 1 April 2017.
- (3) Appointed as a Non-Independent Non-Executive Director on 23 May 2016.
- (4) Re-designated from a Non-Executive Director to an Executive Director and resigned as a member of the NRC on 1 April 2017.

The Board is supplied with quality and timely information, which allows the Directors to discharge their responsibilities effectively and efficiently. The meeting agenda together with a set of comprehensive Board Papers for each agenda item are delivered to each Director in advance of meetings, to enable the Board sufficient time to review the matters to be deliberated and to allow for effective discussion and decision making during the meeting, and where necessary, to obtain supplementary information before the meeting. At the Board meeting, the Chairman encourages constructive, open and healthy debate and ensures that resolutions are circulated and deliberated so that all Board decisions reflect the collective view of the Board. Directors are given the chance to freely express their views or share information with their peers during deliberation at the Board. Any Director who has a direct and/or indirect interest in the subject matter to be deliberated will abstain from deliberation and voting on the same during the meeting. All deliberations at the meetings of the Board and its Committees in arriving at the decisions and conclusions are properly recorded by the Company Secretary by way of minutes of meetings.

All Board members are obliged to notify the Chairman of the Board before accepting any new directorship. The notification shall include an indication of time that will be spent on the new appointment. The Chairman shall also notify the Board if he has any new directorship or significant commitments outside the Company.

The Directors are also in compliance with Paragraph 15.06 of the Listing Requirements on the restriction on the number of directorships in listed companies held by the Directors. The Company Secretary monitors the number of directorships held by each Director to ensure compliance at all times. The list of directorships of each Director is updated regularly and is tabled for the notation of the Board on a quarterly basis. The Board is satisfied that the external directorships of the Board members have not impaired their ability to devote sufficient time in discharging their roles and responsibilities effectively.

All Directors have attended the Mandatory Accreditation Programme as required under the Listing Requirements. To remain relevant in the rapidly changing and complex modern business environment, our Directors are committed to continuing education and lifelong learning to fulfil their responsibilities to the Company and enhance their contributions to board deliberations.

For this purpose, a dedicated training budget for the Directors' continuing education is provided each year by the Company. In addition to the NRC's evaluation and determination of the training needs for each of the Directors, the Directors may also request to attend training courses according to their needs as a Director or member of the respective Board Committees on which they serve.

Throughout the period under review, the Directors were also invited to attend a series of talks on Corporate Governance organised by Bursa Securities together with various professional associations and regulatory bodies.

An appropriate induction has been provided to the newly appointed Director in order for him to familiarise himself with the Group's organisational structure, strategic plans, significant financial, accounting and risk issues and other important matters and become effective in his role within the shortest practicable time. The induction programme also allowed him to get acquainted with Senior Management, so as to facilitate board interaction and independent access to the Management.

During the FY2017, all members of the Board attended various training programmes, conferences, seminars and courses organised by the relevant regulatory authorities and professional bodies on areas relevant to the Group's business, Directors' roles, responsibilities, effectiveness and/or corporate governance issues. Training programmes, conferences, seminars and courses attended by Directors during the year under review are as follows:

- 10th International Petroleum Technology Conference
- Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) 2016
- Affin Hwang Capital Conference Series 2016 – Navigating through Shifting Sands
- Corporate Governance Breakfast Series: Cyber Security Threat and How Board should mitigate the Risks
- Corporate Governance Breakfast Series: The Game Changer for Boardroom
- Corporate Governance Breakfast Series: The Strategy, the Leadership, the Stakeholders and the Board
- Designing Directors' Performance Assessment for Director's Independence and Effectiveness
- Directors' Continuous Education Programme on "Highlights and Key Changes of the Companies Act, 2016, Security and Terrorism in Malaysia and the Power of Social Media and How It Impacts Our Business"
- Directors' Remuneration Seminar 2016
- Directors' Training on "Related Party Transaction and Recurrent Related Party Transactions"
- Global Solar Leaders' Summit at Intersolar Middle East
- Global Transformation Forum 2017
- Horasis Asia Meeting 2016
- Invest ASEAN 2016
- Malaysia Code on Corporate Governance 2017 & the New Companies Act 2016
- Mandatory Accreditation Programme for Directors of Public Listed Companies
- New Reporting in Annual Report and Sustainability Statement by KPMG

Statement on Corporate Governance *(cont'd)*

- Regulatory Requirements on Corporate Governance, Risk Management and Internal Controls that affect Listed Issuers, their Board and Management
- SCOMI Board Away Day 2017
- Securities Industry Development Corporation (SIDC) & United Nations Global Compact (UNGC) Program: The Role of Corporate ASEAN in driving the Sustainable Development Goals

Apart from attending the training programmes, conferences and seminars organised by the relevant regulatory authorities and professional bodies, the Directors continuously received briefings and updates on regulatory and industry development, including information on the Group's businesses and operations, risk management activities and other initiatives undertaken by the Group.

PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING

The Board is committed to provide a balanced and true view of the Group's financial performance and prospects in all its reports to shareholders, stakeholders and regulatory authorities. Prompt release of announcements of the quarterly financial statements and press releases reflect the Board's commitment to provide timely and transparent disclosures of the performance of the Group. This is also channelled through the audited financial statements, quarterly announcements of the Group's unaudited results as well as the Chairman's Statement and the Management Review of Operations in the Annual Report.

The Directors' Responsibility in respect of the preparation of the annual audited financial statements for the financial year under review is set out on Statement of Directors' Responsibility of this Annual Report.

In discharging its fiduciary responsibility, the Board is assisted by the ARMC to oversee the financial reporting processes and the quality of the Group's financial statements. The ARMC members, all of whom are financially literate, reviewed the Company and the Group's financial statements, prior to recommending them for approval by the Board and issuance to the shareholders and stakeholders. The ARMC has met eight (8) times during the financial year under review in order to carry out their duties in accordance with the TOR. The CEO and CFO formally presented to the ARMC and the Board the details of financial performance of the Company and the Group, for review of quarter-to-quarter and year-to-date performance against the approved FY2017 budget.

The primary objective of the ARMC is to assist the Board to review the adequacy and integrity of the Group's financial administration and reporting, internal control and risk management systems, including the management information system and systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board, through the ARMC, maintains an appropriate, formal and transparent relationship with the Group's internal and external auditors. The ARMC is guided by the Group's policies and procedures in accessing the suitability and independence of the external auditors, which also includes the provision of non-audit services by the external auditors to the Group and the Company to ensure their independence is not compromised. Those policies and procedures are to be read in conjunction with the TOR of the ARMC, which outlines the duties and responsibilities of the ARMC relating to the appointment of the external auditors.

The ARMC has explicit authority to communicate directly with the Group's internal and external auditors and vice versa the Group's internal and external auditors also have direct access to the ARMC to highlight any issues of concern at any time. Further, the ARMC meets the external auditors without the presence of Executive Directors or the Management whenever necessary, but no less than twice a year. Meetings with the external auditors are held to further discuss the Group's audit plans, audit findings, financial statements, as well as to seek their professional advice on other related matters.

The ARMC is also tasked by the Board to consider the appointment of the external auditor, the audit fee and any questions relating to the resignation or dismissal as well as all non-audit services to be provided by the external auditors to the Company with a view to auditor independence and to provide its recommendations thereon to the Board. The ARMC has received confirmation from the external auditors that for the audit of the financial statements of the Group and Company for the FY2017, they have maintained their independence in accordance with their firm's requirements and with the terms of relevant professional and regulatory requirements and they have reviewed the non-audit services provided to the Group during the financial year in accordance with the independence requirements and are not aware of any non-audit services that have compromised their independence as external auditors of the Group. The external auditors also reaffirmed their independence at the completion of the audit.

The ARMC had at its meeting held on 4 July 2017 undertook an annual assessment of the suitability and independence of the external auditors, KPMG PLT ("KPMG") in accordance with the Policy on the Selection of External Auditors of the Company which was adopted in 2014. The ARMC also took into account the openness in communication and interactions with the lead audit partner and

engagement team through discussions with them at the ARMC meetings held in May 2016, July 2016 and February 2017 as well as at the private meetings, through which they have demonstrated their independence, objectivity and professionalism. Being satisfied with KPMG's performance, technical competency and audit independence as well as fulfilment of criteria as set out in the Policy on the Selection of External Auditors of the Company and Paragraph 15.21 of the Listing Requirements, the ARMC recommended the re-appointment of KPMG, who have consented to act, as external auditors of the Company for financial year ending 31 March 2018 ("FY2018"). The ARMC was also satisfied that the provision of the non-audit services by KPMG for FY2017 did not in any way impair their objectivity and independence as external auditors of the Company. The Board at its meeting held on 4 July 2017 concurred with the ARMC on its recommendation for the shareholders' approval to be sought at the forthcoming AGM on the re-appointment of KPMG as external auditors of the Company for FY2018.

The membership, TOR, roles and relationship with both the internal and external auditors and activities of the ARMC during the FY2017 are set out on ARMC Report of this Annual Report.

PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS

The Board firmly believes in maintaining a sound risk management framework and internal controls system with a view to safeguard shareholders' investment and the assets of the Group. The size and geographical spread of the Group involve exposure to a wide variety of risks, where the nature of these risks means that events may occur which could give rise to unanticipated or unavoidable losses.

In establishing and reviewing the risk management and internal controls system, the Board recognises that such systems can provide only reasonable, but not absolute, assurance against the occurrence of any material misstatement or loss.

The ARMC meets on a regular basis to ensure that there is clear accountability for managing significant identified risks and that identified risks are satisfactorily addressed on an ongoing basis. In addition, the adequacy and effectiveness of the risk management and internal controls system is also periodically reviewed by the ARMC.

The Board has received assurance from the CEO and the CFO that the Group's risk management and internal controls system is operating adequately and effectively, in all material aspects.

Regular assessments on the adequacy and integrity of the internal controls and monitoring of compliance with policies and procedures are also carried out through internal audits. The risk-based internal audit plan that covers internal audit coverage and scope of work is presented to the ARMC for its consideration and approval annually.

Internal audit reports encompassing the audit findings together with recommendations thereon are presented to the ARMC on a quarterly basis. The GIA, senior and functional line management are tasked to ensure management action plans are carried out effectively and regular follow-up audits are performed to monitor the continued compliance.

The main features of the risk management framework and internal controls system of the Group are as set out on Statement on Risk Management and Internal Control of this Annual Report.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

The Board recognises the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the shareholders of the Company are treated equitably and the rights of all investors are protected. The Board provides its shareholders and investors with comprehensive, accurate and quality information on a timely and non-selective basis, in order to keep them abreast of all material business matters affecting the Company and the Group.

Timely disclosure of material information is critical towards building and maintaining corporate credibility and investor confidence. Recognising the importance of accurate and timely public disclosures of corporate information in order for the shareholders to exercise their ownership rights on an informed basis, the Board has established a Global Communications Policy with the following intention:

- to provide guidance and structure in disseminating corporate information to, and in dealing with investors, analysts, media representatives, employees and the public;
- to raise management and employees' awareness on the disclosure requirements and practices;
- to ensure compliance with legal and regulatory requirements on disclosure; and
- to protect the brand equity of the Group by managing the risk associated with the brand i.e. exposures to the brand that can undermine its ability to maintain its desired differentiation and competitive advantage.

The Global Communications Policy outlines how the Group identifies and distributes information in a timely manner to all shareholders. It also reinforces the Group's commitment to the continuous disclosure obligations imposed by law, and describes the procedures implemented to ensure compliance.

Statement on Corporate Governance *(cont'd)*

The Board through the Management oversees the Group's corporate disclosure practices and ensures implementation and adherence to the policy. The Board has authorised the CEO as the primary spokesperson responsible for communicating information to all stakeholders including the public.

The Group also maintains a corporate website, www.scomiengineering.com.my to disseminate information and enhance its investor relations. All disclosures, material information and announcements made to Bursa Securities are published on the website shortly after the same is released by the news wire service or the relevant authorities. Supplemental, non-material information will be posted on the website as soon as practicable after it is available.

The Group recognises the need for due diligence in maintaining, updating and clearly identifying the accuracy, veracity and relevance of information on the website. All timely disclosure and material information will be clearly date-identified and retained on the website as part of the public disclosure record for a minimum period of 2 years. The Group Communications division has ongoing responsibility for ensuring that information in the website is up-to-date.

In addition, the email address, name and contact number of the Company's designated person is listed in the website to enable the public to forward queries to the Company.

Besides that, the Company regularly organises separate briefings for fund managers, institutional investors and investment analysts as well as the media, not only to promote the dissemination of the financial results of the Company and the Group but also to keep them updated on the progress and development of the Group's business and prospect.

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Shareholders are encouraged to attend the AGM and any general meetings of the shareholders, which is the principal forum for dialogue between the Board and the shareholders and provides shareholders the opportunity to raise questions or concerns with regards to the Group as a whole, as well as to discuss any other important matters with the Management and the Board.

The Company at all times dispatched its notices of the AGM and any general meetings of the shareholders, Annual Report and related circular to shareholders at least twenty one (21) days before the AGM and any general meetings of the shareholders, unless otherwise required by laws, in order to provide sufficient time to shareholders to understand and evaluate the matters involved as well as to make necessary arrangements to attend, participate and vote either in person, by corporate representative, by proxy or by attorney, to exercise their ownership rights on an informed basis during the AGM and any general meetings of the shareholders. Where special business items are to be transacted, a full explanation is provided in the notice of the AGM and any general meetings of the shareholders or the related circular to shareholders in order to assist the shareholders' understanding of matters and the implication of their decision in voting for or against a resolution.

In line with paragraph 8.29A of the Listing Requirements, all the resolutions set out in the notices of the 32nd AGM were put to vote by poll. The Company has appointed Symphony Share Registrars Sdn Bhd as Poll Administrator to conduct the polling process, and Symphony Corporatehouse Sdn Bhd as Independent Scrutineers to verify the poll results. The voting at the 32nd AGM was conducted through electronic poll voting (e-voting) for the first time, where personalised wristbands were issued by the Share Registrar upon registration. The electronic poll voting was conducted upon completion of the deliberation of all items to be transacted at the 32nd AGM. The Chairman, upon the verification of the poll results by the Independent Scrutineers, announced the results for each resolution, which include votes in favour and against and declared whether the resolutions were carried. The outcome of the 32nd AGM was announced to Bursa Securities on the same day the meeting was held. The Minutes of the 32nd AGM were also made available on the Company's website at www.scomiengineering.com.my.

The Board, the Management Team, both internal and external auditors of the Company and if required, the Advisers, are present at the AGM and any general meetings of the shareholders to answer questions or concerns raised by shareholders.

Before the commencement of the AGM and any general meetings of the shareholders, the Directors and the Management Team will take the opportunity to engage directly with the shareholders to account for their stewardship of the Company. Direct engagement with shareholders provides the shareholders a better appreciation of the Company's objectives, quality of its management and the challenges faced, while also making the Company aware of the expectations and concerns of its shareholders.

During the AGM and any general meetings of the shareholders, there is always a presentation by the CEO or any representative from the Management Team on the Group's strategy, the operations and financial performance of the Group, the major developments and the prospects of the Group and the subject matters tabled for decision. Besides that, the Chairman of the AGM and any general meetings of the shareholders will invite the shareholders to raise questions pertaining to the Company's financial performance and other items for adoption at the meeting, before putting a resolution to vote. The Chairman of the AGM and any general meetings of the shareholders will also share with the shareholders the Company's responses to questions submitted in advance of the AGM and any general meetings of the shareholders by the Minority Shareholder Watchdog Group, if any.

At the 32nd AGM, all 7 Directors were present in person to engage directly with shareholders, and be accountable for their stewardship of the Company. There was a presentation by the CEO of the Group's strategy, the operations and financial performance of the Group, the major developments and the prospects of the Group to the shareholders. The Chairman of the AGM also invited shareholders to raise questions pertaining to the Company's financial performance and other items for adoption at the meeting, before putting a resolution to vote. The Directors, CEO, Management, internal and external auditors were in attendance to respond to the questions or concerns raised by shareholders.

This Statement is made in accordance with the resolution of the Board dated 24 July 2017.

Statement on Risk Management and Internal Control

INTRODUCTION

Pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”) (“Listing Requirements”), Practice Note 9 issued by Bursa Malaysia and the principles set out in the Malaysian Code on Corporate Governance 2012 (the “Code”), the Board of Directors of Scomi Engineering Bhd (the “Company”) (the “Board”) is committed to maintain a sound Risk Management Framework and Internal Controls System to safeguard shareholders’ investment and the assets of the Company and its group of companies (the “Group”).

The Board is guided by the Statement on Risk Management & Internal Control - Guidelines for Directors of Listed Issuers in making disclosures concerning the main features of the Risk Management Framework and Internal Controls System of the Group pursuant to the Paragraph 15.26(b) of the Listing Requirements. Set out below is the Group’s Statement on Risk Management and Internal Control for the financial year ended 31 March 2017. This Statement covers all of the Group’s operations.

BOARD RESPONSIBILITY

The Board is fully committed to ensure the existence of an effective Risk Management Framework and Internal Controls System within the Group, and continuously reviews and evaluates the adequacy and integrity of the framework and system. The Board recognises that such systems are designed to manage and reduce, rather than eliminate, the risks identified to acceptable levels. Therefore, the internal controls implemented can only provide reasonable and not absolute assurance against the occurrence of any material misstatement, loss or fraud.

The Board has overall responsibility for the Group’s Risk Management Framework and Internal Controls System and has delegated the implementation of the framework and system to the Management whilst the Audit and Risk Management Committee of the Board (the “ARMC”) was tasked by the Board with oversight responsibility to review the adequacy and effectiveness of the Risk Management Framework and Internal Controls System. On a quarterly basis, the Management reports to the ARMC on all risk areas faced by the Group and findings identified from the internal audit reviews conducted by the Group Internal Audit (“GIA”) as well as the actions taken by the Management to address those high risks areas and audit findings. Minutes of the meetings of the ARMC which recorded these deliberations were presented to the Board. The Chairman of the ARMC will also report to the Board on the principal risks and internal controls related matters and recommendations deliberated by the ARMC at the immediate subsequent Board meeting.

The Risk Management Framework and Internal Controls System is subject to the Board’s regular review with a view towards appraising the adequacy, effectiveness and efficiency of such system within the Group and also to ensure that these systems are viable and robust.

The Board has received assurance from the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) that the Group’s Risk Management Framework and Internal Controls System is operating adequately and effectively, in all material aspects.

Taking into consideration the assurance from the Management Team and input from the relevant assurance providers, the Board is of the view that the Risk Management Framework and Internal Controls System of the Group is satisfactory and adequate to safeguard shareholders' investment and the assets of the Group. The Group will continuously improve measures to strengthen the Risk Management Framework and Internal Controls System of the Group.

RISK MANAGEMENT FRAMEWORK

With the increasingly complex and dynamic business environment, proactive management of the overall business risks is a prerequisite in ensuring that the organisation achieves its strategic objectives. The Group is committed to ensuring that it plans and executes activities to ensure that the risks inherent in its business are identified and effectively managed. Risk management activities are to be regarded as an integral part of the Group's philosophy and business practices and not in isolation. The management of risks is aimed at achieving an appropriate balance between realising opportunities for gains while minimising losses to the Group.

The Group has established an Enterprise Risk Management Framework ("Framework") which serves to inform and provide guidance to Directors, senior management, functional line management and staff in managing risks affecting the businesses and operations of the Group.

The Framework is summarised in the diagram below, which sets out:

- the fundamentals and principles of risk management that is to be applied in all situations and throughout all levels of the organisation;
- the process for identifying, assessing, responding, monitoring and reporting of risks and controls;
- the roles and responsibilities of each level of management in the Group; and
- the mechanisms, tools and techniques for managing risks in the Group.

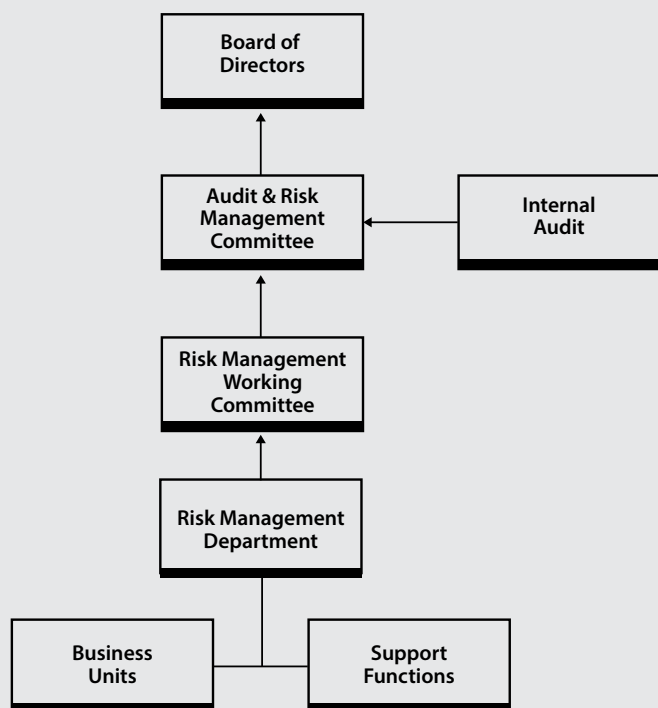


The risk management process is an ongoing process commencing from the establishment of strategic business planning, beginning of any major new project, venture or change in operational environment. The process includes systematic activities of risk identification, assessment, treatment, monitoring and reporting. This risk management process is applied to all levels of activity in the Group, with the objective of establishing accountability and ensuring mitigation at the source of the risk.

The level of risk tolerance of the Group is expressed through the use of a risk impact and likelihood matrix. Once the risk level is determined, the risk owner is required to deal with the relevant risks by adhering to the Group's risk treatment guidance on the actions to be taken and establish Risk Action Plans ("RAP") to detail out activities to be carried out to mitigate the risks. Each activity in the RAP has target timeline for implementation. The Group will only accept a commercial level of risk that will provide reasonable assurance on the profitability of the Group.

Statement on Risk Management and Internal Control *(cont'd)*

Every individual in the Group plays an integral role in the effective management of its risks. The risk management reporting structure adopted by the Group from transactional levels to the Board is summarised as follows:



The Framework implemented within the Group ensures that the key business and operational risks faced by all business units within the Group are continually defined, highlighted, reported and managed. Monitoring of the Risk Action Plans during the year under review was performed by the Management, the progress of which was reported to the ARMC on a quarterly basis.

The Framework will be reviewed periodically by the Management and the Board to ensure its continued application and relevance.

The Management also reports to the ARMC on a quarterly basis on high risks areas faced by the Group and the adequacy and effectiveness of the internal controls system adopted throughout the Group. The ARMC will report to the Board on all significant risk related matters deliberated at its meetings.

Further information on the Group's risk management and internal audit activities is highlighted in the ARMC Report of this Annual Report.

INTERNAL CONTROLS SYSTEM

The Internal Controls System of the Group covers amongst other matters on governance, organisational, financial, business strategy, operations, regulatory and compliance control matters which include the following:

Clear and Structured Organisational Reporting Lines

The Group has a well-defined organisation structure that is aligned to its business requirements and also to ensure that checks and balances exist throughout the Organisation.

Clear reporting lines and authority limits, driven by Delegated Authority Limits set by the Board, govern the Group's decision making and approval process.

In addition, the Group employs the Balanced Scorecard framework that implements and measures the goals and targets for individual employees in alignment with the business objectives and strategies of the Group.

The Board is supported by two (2) Board Committees which provide focus and counsel in the areas of:

1. Audit and Risk Management; and
2. Nomination and Remuneration of Directors and CEO.

Certain Board responsibilities are delegated to the Board Committees through clearly defined Terms of Reference, which are reviewed from time to time.

Further details of the Board Committees are contained in the Statement on Corporate Governance of this Annual Report.

The Board has a Board Charter and a Board Composition Policy which establish a formal schedule of matters and outlines types of information required for the Board's attention and deliberation at Board meetings.

Comprehensive Board papers, which include financial and non-financial matters such as quarterly results, business strategies, explanation of the performance of the Group and individual business divisions, key operational issues, corporate activities and exercises of the Group, etc. are escalated to the Board for deliberation and approval.

Strategic Business Plan and Annual Budget

The Board constructively challenges and contributes to the development of the Group's strategic directions and annually reviews the Group's strategic business plan. The Board probes the Management to ensure the Management has taken into consideration the varying opportunities and risks whilst developing the strategic business plan.

The Group's annual strategic business plan and budget is reviewed, deliberated and approved by the Board. The expectations of the Board are clearly discussed with, and understood by, the Management.

The Board is also responsible for monitoring the implementation of the strategic business plan and for assessing the actual performance of the Group against the annual strategic business plan and budget as well as to provide guidance to the Management.

On a quarterly basis, the CEO reviews the Group's key financial performance metrics with the ARMC and the Board and highlights any concerns and issues, if any. The actual performance of the Group is assessed against the approved budget on a quarterly basis where explanations, clarifications and corrective action taken for significant variances are reported by the Management to the ARMC and the Board.

Performance Assessment and Capability Enhancement ("PACE")

The Balanced Scorecard ("BSC") is the integral part of PACE and the annual corporate BSC of the CEO is developed in line with the strategic objectives and the approved annual budget of the Group. The Key Performance Indicators ("KPI") as set out in the employees' scorecard, which are based on the Corporate BSC approach, are used to track and measure staff performance.

The Nomination and Remuneration Committee of the Board (the "NRC") is tasked by the Board to review the proposed initiatives, measures and targets to be included in the BSC of the CEO and evaluate the performance of the CEO against the targeted key result areas or initiatives as set out in the BSC of the CEO at the end of each financial year end. Subsequently, the NRC provides the Board with its recommendations with regards to the proposed BSC for the CEO for each financial year and the results of the evaluation of the performance of the CEO at the end of the financial year.

Following the determination of the measures and targets for the CEO, the same will be cascaded down to her direct reports. The CEO reviews the progress of achievements in targeted key results areas or initiatives as set out in the BSCs of her direct reports on a monthly basis, allowing for timely response and corrective action to be taken to catch up to their targeted plan.

Business Evaluation Committee ("BEC")

The BEC which comprises cross functional representatives has been established to review all critical decisions involving investments, disposals, tenders, joint ventures, capital expenditures and award of contracts. The BEC will assist in evaluating risks associated with those critical decisions and the reasonableness of the associated mitigating factors.

The BEC aims to assist the CEO and respective business units to:

- (i) review the long and short term economic, commercial, operational, risk, strategy and other relevant factors considered by the business units in preparing bids and/or submission for tenders;
- (ii) ensure adherence to the decision making processes when selecting suppliers, contractors and/or customers for goods and services on a tender basis;
- (iii) strengthen the Group's business position, by aligning the process of reviewing contracts, partnerships and supplies/services; and
- (iv) leverage on the opportunities that the Group's overall infrastructure may present, that can benefit the individual business unit.

The BEC is not an approving body but provides an independent assessment to the respective business units on critical decisions drawing upon the expertise of its members and makes recommendations to the CEO prior to approval by the CEO or/and Board, as set out in the Delegated Authority Limits.

Delegated Authority Limits ("DAL")

The Board's approving authority on certain specified activities is delegated to the Management through a clearly and formally defined DAL which is the primary instrument that governs and manages the business decision making process in the Group. Whilst the objective of the DAL is to empower Management, the key principle adhered to in its formulation is to ensure that a system of internal controls, and checks and balances are incorporated therein.

The DAL is implemented in accordance with the Group's policies and procedures and in compliance with the applicable statutory and regulatory requirements. The DAL is continuously reviewed and updated to ensure its relevance to the Group's operations.

Code of Conduct

The Board and employees of the Group are committed to adhering to the best practices in corporate governance and observing the highest standards of integrity and behaviour in all activities conducted by the Group, including the interaction with its customers, suppliers, shareholders, employees and business partners, and within the community and environment in which the Group operates.

Statement on Risk Management and Internal Control *(cont'd)*

The Board and employees of the Group play an important role in establishing, maintaining and enhancing the reputation, image and brand of the Group and ensuring the observance to and compliance with the standards of integrity and behaviour that the Group is committed to.

All employees of the Group of managerial level and above are required to confirm their receipt and understanding of the Code of Conduct and further required to certify their continued compliance with the Code of Conduct on an annual basis.

The Group has also established a Suppliers Code of Conduct, pursuant to which its supply chain are required to adhere to the following:

- that it operates within safe working conditions,
- that its workers are treated with dignity and respect, and
- that environmentally responsible manufacturing processes are implemented and adhered to.

In addition to these commitments, the Group requires its suppliers ("Suppliers") to adhere, in all of their activities, to the laws, rules and regulations of the countries in which they operate.

In furtherance of these commitments and towards the advancement of social and environmental responsibility, the Group requires its Suppliers to implement the Suppliers Code of Conduct which shall be read together with the contract/agreement between the Group and the Supplier. The Group expects the Supplier to abide by the Suppliers Code of Conduct when conducting business with or for the Group. It is the responsibility of every Supplier to comply with the principles of the Suppliers Code of Conduct, as amended from time to time.

The breach of the Suppliers Code of Conduct may lead to formal warnings, disclosure of the nature of breach to all employees of the Group, removal from the Group's preferred vendor list and/or immediate termination as the Group's Supplier subject to terms of contract/agreement, depending on the severity of the situation.

Policies, Procedures, Processes and Systems

Processes are documented into clear and formalized internal policies and procedures to ensure compliance with internal controls and relevant rules and regulations. Regular reviews are performed to ensure that the policies and procedures remain current and relevant. These documents are made available on the Scomi intranet for easy access by the employees.

The Group is also utilizing SAP throughout most of its business units as the main Enterprise Resource Planning ("ERP") system.

Information and Communication

Following from a clear organisational reporting structure, information is communicated and disseminated to all employees in all locations within the Group.

To ensure compliance to Chapter 14 of the Listing Requirements, the Board and the Principal Officers of the Company are informed in advance before the commencement of each closed period, during which time they are to comply with the additional disclosure requirements related to their dealings as set out in the Listing Requirements. They are also reminded that they are not allowed to deal in the listed securities of the Company as long as they are in possession of material and price-sensitive information relating to the Company in order to avoid any insider trading.

Whistleblower Framework and Policy

The Group has in place a Whistleblower Framework and Policy, to provide an avenue for employees to raise genuine concerns internally or report any breach or suspected breach of any law or regulation, including the Group's policies and procedures, to the Disclosure Officer in a safe and confidential manner, ensuring employees can raise concerns without fear of reprisals. These disclosures are investigated, pursuant to which remedial and/or disciplinary actions may be taken, if warranted. These disclosures and the results of the investigations undertaken are reported to the Board on a timely basis.

The Group has also put in safeguards to protect the identity of the Whistleblower to encourage employees of the Group, and indeed anyone else, to report any breach or reasonably suspected wrongful malpractices or act without fear of reprisal so that the problem can be identified at an early stage and resolved quickly within the Group.

Competency and Talent Management

To enhance the competencies of the Group's talent pool and establish a culture of continuous learning, Global Learning and Development Sdn Bhd, a subsidiary of Scomi Group Bhd, runs a series of training and development programmes based on the Learning and Development Framework that defines training based on technical and non-technical programmes. This is to ensure that employees are kept up-to-date with the required competencies to carry out their duties and responsibilities towards achieving the Group's objectives. A KPI on the minimum learning hours per employee is in place to encourage employees' learning, growth and knowledge-sharing.

The Group also conducts staff performance appraisals semi-annually in order to enhance the level of staff competency in carrying out their duties and responsibilities towards achieving the Group's objectives.

Besides assessing the performance of the employees of the Group, using PACE, the Group has also from time to time undertaken a 360-degree assessment exercise as part of the Group's employee's development initiative. The 360-degree assessment is a development tool used to measure the leadership competencies for all Managers. In a 360-degree assessment, feedback is provided by the subordinates, peers, supervisors and the employee himself. The 360-degree assessment will produce a report where the results as well as a compilation of verbatim comments will be used by the Management to plan and map specific paths in the development of the Managers. Through this talent development programme, the Management is able to carry out succession planning effectively and enhance leadership capabilities of all Managers as well as to develop a healthy pipeline of talent for the Group.

Independent Assurance Mechanism

Regular assessments on the adequacy and integrity of the internal controls and monitoring of compliance with policies and procedures are carried out through internal audits. The internal audit function is carried out by the Group Internal Audit ("GIA") which reports to the ARMC and is independent of the activities and operations of the Group. The GIA functions are in accordance with the Internal Audit Charter and the Internal Audit Policies and Procedures Manual, which have been approved by the ARMC and the Board respectively. The internal audit plan which sets out the internal audit coverage and scope of work is presented for ARMC and the Board's consideration and approval annually before its implementation.

Internal audit reports, which encompass audit findings together with recommendations thereon, are presented to the ARMC during its quarterly meetings. The GIA, senior and functional line management are tasked to ensure management action plans are carried out effectively and regular follow-up audits are performed to monitor continued compliance.

In addition to this internal assurance mechanism, the Group also received extensive and detailed ARMC reports and the management letter from its External Auditors that primarily focuses on financial controls. The ARMC reports and the management letter were also presented to the ARMC for deliberations. In the event of any non-compliance, appropriate corrective actions have been taken in addition to amendments to the relevant procedures, if required.

Besides that, the ARMC also conducted at least two private meetings with the External Auditors, to give opportunity to the External Auditors to raise any matters without executive board members or the Management present.

Quality, Health, Safety and Environment ("QHSE")

A clear, formalised and documented QHSE Manual is in place to outline employees' roles and responsibilities towards the prevention of accidents, the elimination of hazards and in ensuring a safe working environment. The Group adopts strict standards and controls to continuously improve the application and performance of the safety management systems as a safe working environment is fundamental to the Group's success in business operations.

The high standard of work is achieved through the implementation of industry's best practice based on the OHSAS 18001 for Health and Safety Standards and the ISO 14001 for Environmental Standards.

BOARD ASSURANCE AND LIMITATION

While the Board reiterates that the Risk Management Framework and Internal Controls System should be continuously improved in line with evolving business developments, it should also be noted that the framework and system can only manage rather than eliminate the risks of the failure to achieve business objectives. Therefore, the Risk Management Framework and Internal Controls System in the Group can only provide reasonable but not absolute assurance against material misstatements, losses and frauds.

This Statement is made in accordance with the resolution of the Board dated 24 July 2017.

Audit and Risk Management Committee Report

The Board of Directors of Scomi Engineering Bhd (the “Company”) (the “Board”) is pleased to present the Report of the Audit and Risk Management Committee (the “ARMC” or “Committee”) for the financial year ended 31 March 2017 (“FY2017”) to provide insights into the manner in which the ARMC discharged its functions for FY2017.

TERMS OF REFERENCE (“TOR”)

The details of the TOR of the ARMC are available for reference on the Company's website at www.scomiengineering.com.my.

COMPOSITION

During the year under review, the ARMC comprised three (3) members, all of whom are Independent Non-Executive Directors.

As disclosed in the profiles of the ARMC members as set out in the Profile of Directors section of this Annual Report, at least one member of the Committee fulfils the financial expertise requirement of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”) and the majority of the members of the Committee are financially literate with sufficient financial experience and ability to assist in discharging the Board's fiduciary duties with respect to its responsibility for overseeing the following:

- (i) the financial administration and reporting process and ensuring that the financial results of the Group and the Company are truly and fairly presented in its financial statements;
- (ii) the adequacy and effectiveness of the risk management and internal control systems;
- (iii) the performance of the external and internal audit functions; and
- (iv) the fairness and reasonableness of the related party transactions (“RPTs”) entered into by the Company with related parties.

The composition of the ARMC complies with paragraph 15.09(1) of the Listing Requirements.

MEETINGS AND ATTENDANCE

A total of eight (8) ARMC meetings were held during the year under review, which were on 27 May 2016, 13 June 2016, 12 July 2016, 9 August 2016, 28 September 2016, 21 November 2016, 5 December 2016 and 15 February 2017. A quorum, established by the presence of a majority of members who are Independent Directors, was always met. The Chief Executive Officer (“CEO”), the Chief Financial Officer (“CFO”), the Chief Legal and Governance Officer, the Head of Group Internal Audit (“GIA”) and the Head of Assurance were invited to all ARMC meetings to provide a direct flow of information to the ARMC as well as to provide clarification in the event of any issues arising. The responsible personnel having charge over the relevant auditees were invited to brief the ARMC on specific issues involving their respective areas of responsibility arising from the risk management and internal audit reports.

The external auditors were also invited to present to the ARMC the audit plan, the audit findings, the independent auditors' report as well as any other matters as they considered were important for the ARMC's attention. During the financial year under review, the ARMC has conducted three (3) private meetings with the external auditors, to give opportunity to the external auditors to raise any matters without the presence of the executive board member, the Management and the Head of GIA.

The members of the ARMC and their attendance are as follows:

NAME	ARMC	DESIGNATION	ATTENDANCE (attended/held)
Dato' Ikmal Hijaz Bin Hashim	Chairman	Independent Non-Executive Director	6/8
Tunku Alizan Bin Raja Muhammad Alias	Member	Independent Non-Executive Director	6/8
Liew Willip	Member	Independent Non-Executive Director	8/8

The minutes of each ARMC meeting were recorded and tabled to the ARMC for adoption at subsequent ARMC meetings and thereafter all minutes of ARMC meetings and circular resolutions passed are presented to the Board for notation. The Chairman of the ARMC reported the Committee's recommendations to the Board for its consideration and implementation as well as highlighted the significant matters and resolutions deliberated by the ARMC to the Board at its immediate subsequent meeting.

The Board, through its Nomination and Remuneration Committee, has reviewed the performance of the ARMC and the skills, experience and competencies possessed by the members of the ARMC through an annual ARMC effectiveness assessment. The Board is satisfied with the performance of the ARMC and its members where they have carried out their duties and responsibilities in accordance with the TOR of the ARMC. The TOR of the ARMC was reviewed and amended during the year under review to reflect the changes in line with the Listing Requirements.

SUMMARY OF ACTIVITIES

In accordance with the approved TOR of the ARMC, the ARMC carried out the following activities during the FY2017:

1. reviewed the quarterly financial performance and annual audited financial statements of the Company prior to submission to the Board for consideration and approval;
2. reviewed the quarterly financial performance of the Company and its substantial subsidiaries against the approved budget where explanations, clarifications and corrective action taken for significant variances are reported by the Management to the ARMC;
3. reviewed the suitability, independence and objectivity of the external auditors in accordance with the Policy on the Selection of External Auditors;
4. recommended the re-appointment of the external auditors to the Board after assessing the performance, technical competency and audit independence of the external auditors as well as ensuring that the external auditors fulfill the criteria set out in the Company's Policy on the Selection of External Auditors and paragraph 15.21 of the Listing Requirements;
5. reviewed and discussed with the external auditor the nature and scope of the audit plan and ensure that the audit plan is comprehensive;
6. reviewed the external auditor's report on the status of the audit for the financial year, management letter and the Management's response thereto;
7. considered the major audit findings arising from the statutory audit activities conducted by the external auditors and the Management's responses thereto;

Audit and Risk Management Committee Report *(cont'd)*

8. reviewed the performance and effectiveness of the external auditor for the statutory audit services provided;
9. reviewed and recommended to the Board the proposed non-audit services to be provided by the external auditors in accordance with the Policy on the Selection of External Auditors;
10. reviewed the audit fees and non-audit fees paid or payable to the external auditors based on the approved audit plan and non-audit services for the Group and the Company and recommended the same to the Board for approval;
11. conducted private meetings with the external auditors, without the presence of the executive board member, the Management and the Head of GIA, to give the external auditors the opportunity to raise any matters of concern and, arising therefrom, directing Management to take further action on such matters;
12. reviewed and approved the annual risk-based internal audit plan and scope of work for the Group and the Company and ensured the adequacy of resources and competencies of the GIA to carry out the internal audit on all significant businesses and support functions based on identification and evaluation of the respective risks and control environment;
13. reviewed the internal audit reports comprising audit findings, recommendations and the Management responses for the Group and the Company prepared by the GIA;
14. reviewed the reports prepared by the GIA relating to the follow-up audits on all major areas of concern and recurring issues and risk areas to assess the extent to which the Management has made progress in implementing the agreed action plans arising from the prior internal audit reviews;
15. reviewed the function of the GIA in accordance with the Internal Audit Charter and the independence of the GIA;
16. reviewed the proposed initiatives, measures and key performance indicators ("KPIs") to be included in the Balanced Scorecard ("BSC") of the Head of GIA and evaluated the performance of the Head of GIA against the KPIs or initiatives as set out in the BSC of the Head of GIA at the end of financial year;
17. reviewed the performance appraisal of the GIA staff conducted by the Head of GIA;
18. reviewed the update report from the GIA on the status of the implementation of the recommendations as stated in the management letter prepared by the external auditors;
19. reviewed the transactions to be entered into by the Company with related parties and provide recommendations on the same to the Board;
20. reviewed the list of related party transactions and conflict of interest entered into by the Company;
21. reviewed the global risk management strategy of the Group;
22. reviewed the Group and the Company's risk profiles and actions plan taken by the Management to control and mitigate the risks on a quarterly basis;
23. reviewed the Group's risk management and internal controls system and practices for the identification and management of risks established by the Management and be reasonably assured that the same is operating adequately and effectively;
24. received assurance from the CEO and the CFO that the Group's risk management and internal controls system is operating adequately and effectively, in all material aspects;
25. reviewed and evaluated risk considerations in relation to major business investment and/or divestment proposals, corporate exercises and adequacy of action plans taken by the Management to mitigate risks identified;
26. reviewed the update reports prepared by the Management relating to material litigation with clients;
27. reviewed the annual Statements on Corporate Governance, Risk Management and Internal Control and ARMC Report to be published in the Annual Report;
28. tabled the approved Minutes of the ARMC meetings for the notation of the Board on a quarterly basis; and
29. reported significant matters and resolutions deliberated by the ARMC to the Board.

INTERNAL AUDIT FUNCTION

The Group has an in-house Internal Audit Department led by the Head of GIA who reports directly to the ARMC. The GIA carried out their functions according to the standards set by recognised professional bodies.

The GIA provide independent and objective assessment on the adequacy and effectiveness of the governance, risk management and internal control processes within the Group. Through the GIA, the Company undertakes regular and systematic reviews of the risk management and internal controls system so as to provide reasonable assurance that such internal controls system continues to operate adequately and effectively in the Group.

The GIA report directly to the ARMC to ensure impartiality and independence. The ARMC reviews the risk based internal audit plans and scope of work for the year for the Group and the Company as well as the performance of the GIA in undertaking their internal audit function. The ARMC has direct communication channels with, and full access to, the GIA for all internal audit reports prepared.

During the financial year under review, the GIA conducted various internal audit engagements in accordance with the approved risk-based internal audit plans that are consistent with the corporate goal of the Group. Details of the internal audit activities carried out by the GIA are as follows:

1. prepared and presented the risk-based internal audit plan, audit strategy, scope of work and resource requirements to the ARMC for deliberation and approval;
2. evaluated and appraised the soundness, adequacy and application of financial and other controls and promoting effective controls in the Group and the Company at reasonable cost;
3. ascertained the level of operational compliance with established policies, procedures and statutory requirements;

4. ascertained the extent to which the Group's and the Company's assets are accounted for, verification of their existence and safeguarding assets from losses;
5. appraised the reliability and usefulness of information developed within the Group and the Company for management;
6. identified and recommended opportunities for improvements to the existing system of internal control, operations and processes in the Group and the Company;
7. provided the Board, through the ARMC, reasonable assurance of the effectiveness of the Group's risk management, internal control and governance processes;
8. conducted follow-up audits on all major areas of concern and recurring themes to ensure that the corrective actions were implemented appropriately to enhance the governance, risk management and control processes within the Group and the Company;
9. reviewed the management letter prepared by the external auditors, and reported to the ARMC on any significant recommendations which have not been implemented by the Management;
10. presented the performance appraisal of the GIA staff conducted by the Head of GIA and confirmed the independence of the GIA to the ARMC; and
11. reviewed the annual Statement on Risk Management and Internal Control and the ARMC report to be published in the Annual Report.

The total costs incurred by the GIA for the internal audit function of the Group for the FY2017 amounted to RM162,113.00.

This Statement is made in accordance with the resolution of the Board dated 24 July 2017.

Additional Information

1. Material Contracts of the Company and its Subsidiaries, involving the interests of the Directors, Chief Executive Officer or Major Shareholders

There were no material contracts involving the interests of the Directors, Chief Executive Officer or Major Shareholders, either still subsisting at the end of the financial year ended 31 March 2017 or if not then subsisting, entered into since the end of the previous financial year.

2. Audit Fees

The audit fees incurred for services rendered to the Group and the Company by the external auditors and corporations affiliated to the auditors' firm for the financial year ended 31 March 2017 was RM554,000 and RM125,000 respectively.

3. Non-Audit Fees

The non-audit fees incurred for services rendered to the Group and the Company by the external auditors and corporations affiliated to the auditors' firm for the financial year ended 31 March 2017 was RM133,000 and RM26,000 respectively.

4. Director's Conflict of Interest

Save as disclosed below and the disclosures in the Notes to the Financial Statements of the Company for the financial year ended 31 March 2017, the Directors do not have any existing conflicts of interest or any personal interest in any business arrangement involving Scomi Engineering Bhd (the "Company"):

Director	Nature of existing conflict of interest	Transaction
Tunku Alizan Bin Raja Muhammad Alias	Tunku Alizan Bin Raja Muhammad Alias is an Independent Non-Executive Director of the Company and is a partner of Messrs Zul Rafique & Partners ("ZRP")	Provision of legal services by ZRP to Scomi Transit Projects Sdn Bhd, a wholly-owned subsidiary of the Company in relation to the drafting of the Third Supplemental Contract for the Kuala Lumpur Monorail Fleet Expansion Project.
Shah Hakim @ Shahzanim Bin Zain	Shah Hakim @ Shahzanim Bin Zain is a Non-Independent Executive Director of the Company; and a substantial shareholder of Suria Business Solutions Sdn Bhd ("Suria").	(i) Leasing Agreement with Orix Rentec (Malaysia) Sdn Bhd for the leasing of personal computers, which are supplied to them by a related party, Suria; (ii) Provision of maintenance services by Suria for Scomi's UCIPT (Unified Communications based on IP Telephony); and (iii) Provision of maintenance and support services by Suria for Scomi's VMWare (Virtual Machine) Server for a term of 2 years.

In each of the transactions listed above, the relevant Director concerned had declared the nature of his conflict of interest and had abstained from deliberating and voting on the relevant resolutions.

Statement of Directors' Responsibility

The Directors are required by the Companies Act, 2016 (the "Act") to prepare the financial statements of Scomi Engineering Bhd (the "Company") and its subsidiaries (the "Group") for each financial year which have been made out in accordance with the applicable Malaysian Financial Reporting Standards, the International Financial Reporting Standards, the provisions of the Act, and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and to present it before the Company at its annual general meeting.

The Directors are responsible to ensure that the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 March 2017, and of the results and cash flows of the Group and the Company for the financial year ended 31 March 2017.

In preparing the financial statements, the Directors have:

- adopted appropriate accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- prepared the financial statements on a going concern basis.

The Directors are responsible to ensure that the Group and the Company keep accounting records which disclose with reasonable accuracy the financial position of the Group and the Company which enable them to ensure that the financial statements comply with the Act.

The Directors are also responsible for taking such steps as are reasonably open to them to preserve the interests of stakeholders, to safeguard the assets of the Group, and to detect and prevent fraud and other irregularities.

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Directors' Report

for the year ended 31 March 2017

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding activities, provision of management services to subsidiaries and the design, manufacture and supply of monorail trains and related services, whilst the principal activities of the subsidiaries are stated in Note 5 to the financial statements.

There has been no significant change in the nature of these activities during the financial year.

ULTIMATE HOLDING COMPANY

The Company is a subsidiary of Scomi Group Bhd, of which is incorporated in Malaysia and regarded by the Directors as the Company's ultimate holding company, during the financial year and until the date of this report.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 5 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
(Loss)/Profit for the year attributable to: Owners of the Company	(19,756)	15,379

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as those disclosed in the financial statements.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

Directors' Report

for the year ended 31 March 2017 (cont'd)

DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

Datuk Zainun Aishah binti Ahmad
 Dato' Ikmal Hijaz bin Hashim
 Tunku Alizan bin Raja Muhammad Alias
 Liew Willip
 Kanesan a/l Velupillai
 Cyrus Eruch Daruwalla (Appointed on 23 May 2017)
 Shah Hakim @ Shahzanim bin Zain
 Lee Chun Fai (Resigned on 23 May 2017)

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

Number of ordinary shares

	At 1.4.2016 '000	Bought '000	Sold '000	At 31.3.2017 '000
Ultimate holding company				
<i>Scomi Group Bhd</i>				
Direct interest				
Shah Hakim @ Shahzanim bin Zain	1,950 ⁽¹⁾	-	-	1,950 ⁽¹⁾
Indirect interest				
Shah Hakim @ Shahzanim bin Zain	175,917 ⁽²⁾	-	-	175,917 ⁽²⁾

Number of ordinary shares

	At 1.4.2016 '000	Bought '000	Sold '000	At 31.3.2017 '000
Fellow subsidiary company				
<i>Scomi Energy Services Bhd</i>				
Direct interest				
Shah Hakim @ Shahzanim bin Zain	2,108 ⁽³⁾	-	-	2,108 ⁽³⁾
Indirect interest				
Shah Hakim @ Shahzanim bin Zain	57 ⁽⁴⁾	-	-	57 ⁽⁴⁾

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

	Number of ordinary shares			At 31.3.2017 '000
	At 1.4.2016 '000	Bought '000	Sold '000	
Company				
<i>Scomi Engineering Bhd</i>				
Direct interest				
Datuk Zainun Aishah binti Ahmad	250	-	-	250
Shah Hakim @ Shahzanim bin Zain	623 ⁽⁵⁾	-	-	623 ⁽⁵⁾
Indirect interest				
Shah Hakim @ Shahzanim bin Zain	538 ⁽⁴⁾	-	-	538 ⁽⁴⁾

⁽¹⁾ 1,421,000 shares held through Maybank Securities Nominees (Tempatan) Sdn Bhd pledged Securities Account for Shah Hakim @ Shahzanim bin Zain (margin) and Maybank Nominees (Tempatan) Sdn Bhd pledged Securities Account for Shah Hakim @ Shahzanim bin Zain.

⁽²⁾ Deemed interested by virtue of Section 8(4) of the Companies Act 2016 through his shareholding in Kaspadu Sdn Bhd and Rentak Rimbun Sdn Bhd which in turn is deemed interested in Scomi Group Bhd.

⁽³⁾ Held through Maybank Securities Nominees (Tempatan) Sdn Bhd pledged Securities Account for Shah Hakim @ Shahzanim bin Zain (margin).

⁽⁴⁾ Deemed interested by virtue of Section 8(4) of the Companies Act 2016 through his shareholding in Rentak Rimbun Sdn Bhd which in turn is deemed interested in Scomi Energy Services Bhd. KAF Nominees (Tempatan) Sdn. Bhd. pledged securities Account for Rentak Rimbun Sdn. Bhd.

⁽⁵⁾ 123,000 shares held through Maybank Securities Nominees (Tempatan) Sdn. Bhd. (Margin) (pledged Securities Account for Shah Hakim @ Shahzanim bin Zain).

Saved as disclosed above, none of the other Directors holding office at 31 March 2017 had any interest in the shares and options over shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements) 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 other than certain Directors who have substantial financial interest in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 28 to the financial statements.

There were no arrangements during and at the end of the financial year 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.

Directors' Report

for the year ended 31 March 2017 *(cont'd)*

ISSUE OF SHARES AND DEBENTURES

Save for the transfer of share premium to paid up capital, there were no other changes in the issued and paid-up capital of the Company during the financial year. There were no debentures issued during the financial year.

TREASURY SHARES

There was no purchase of treasury shares during the financial year.

Details of the treasury shares are set out in Note 12 to the financial statements.

OPTIONS GRANTED OVER UNISSUED SHARES

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

INDEMNITY AND INSURANCE COSTS

During the financial year, the total amount insured on professional indemnity insurance for Directors and officers of the Company is RM76,600,000.

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) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

- i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, 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 year.

OTHER STATUTORY INFORMATION (CONTINUED)

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 year 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 year ended 31 March 2017 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 year and the date of this report.

OTHER INFORMATION**Subsidiaries with different accounting period**

The Companies Commission of Malaysia ("CCM") had granted an order pursuant to Section 247(7) of the Companies Act 2016 approving the application by the Company to allow its subsidiaries, Urban Transit Servicos do Brasil Ltda and Quark Fabricacao de Equipamentos Ferroviarios E Servicos De Engenharia LTDA to continue to have or to adopt a financial year which does not coincide with the Group and the Company financial year ended 31 March 2017, subject to the following conditions:

- (i) the Company is required to report this approval from CCM in its Directors' Report; and
- (ii) the Company is to ensure compliance with the Section 252 and 253 of the Companies Act 2016 and the approved accounting standards pertaining to the preparation of the consolidated financial statements.

The Company has fulfilled these conditions as stated above.

SIGNIFICANT EVENTS DURING THE YEAR

Significant events during the year are disclosed in Note 29 to the financial statements.

SUBSEQUENT EVENTS

Subsequent events are disclosed in Note 30 to the financial statements.

Directors' Report

for the year ended 31 March 2017 *(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.

The auditors' remuneration is disclosed in Note 20 to the financial statements.

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

Datuk Zainun Aishah binti Ahmad
Director

Shah Hakim @ Shahzanim bin Zain
Director

Petaling Jaya

Date: 24 July 2017

Statements of Financial Position

as at 31 March 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets					
Property, plant and equipment	3	60,389	66,971	41,076	26
Intangible assets	4	153,693	156,463	-	-
Investments in subsidiaries	5	-	-	412,245	368,695
Deferred tax assets	7	34,600	34,006	4,693	4,693
Available-for-sale financial assets	8	170	104	-	-
Total non-current assets		248,852	257,544	458,014	373,414
Inventories	9	16,512	7,372	-	-
Current tax assets		4,619	4,077	-	-
Receivables, deposits and prepayments	10	797,617	660,419	288,752	218,169
Cash and bank balances	11	38,452	31,594	2,994	5,204
Total current assets		857,200	703,462	291,746	223,373
Total assets		1,106,052	961,006	749,760	596,787
Equity					
Share capital	12	388,685	342,080	388,685	342,080
Share premium	12	-	46,605	-	46,605
Reserves	12	(132,668)	(123,412)	(38,709)	(52,614)
Total equity attributable to owners of the Company		256,017	265,273	349,976	336,071
Liabilities					
Deferred tax liabilities	7	9,398	-	-	-
Loans and borrowings	13	74,159	71,486	40,304	-
Deferred income		1,681	-	-	-
Trade and other payables	14	78,582	59,521	78,582	59,421
Total non-current liabilities		163,820	131,007	118,886	59,421
Loans and borrowings	13	451,482	398,331	1,283	3,500
Deferred income		120	-	-	-
Trade and other payables	14	216,909	153,439	279,615	197,795
Current tax liabilities		17,435	12,327	-	-
Deferred government grant	15	269	629	-	-
Total current liabilities		686,215	564,726	280,898	201,295
Total liabilities		850,035	695,733	399,784	260,716
Total equity and liabilities		1,106,052	961,006	749,760	596,787

The notes on pages 72 to 145 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 March 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	16	162,880	174,548	56,315	20,740
Cost of sales/services	17	(162,037)	(165,874)	(58,736)	(31,940)
Gross profit/(loss)		843	8,674	(2,421)	(11,200)
Other income		30,489	14,941	31,026	23,923
Selling and distribution expenses		(1,118)	(1,749)	-	-
Administrative expenses		(26,595)	(17,458)	(4,893)	(5,137)
Other expenses		(2,078)	(11,568)	-	(3,092)
Results from operating activities		1,541	(7,160)	23,712	4,494
Finance income		1,443	2,134	288	258
Finance costs	18	(14,629)	(6,854)	(8,621)	(356)
(Loss)/Profit before tax		(11,645)	(11,880)	15,379	4,396
Tax (expense)/credit	19	(8,111)	10,037	-	12
(Loss)/Profit for the year	20	(19,756)	(1,843)	15,379	4,408
Other comprehensive income/(expense), net of tax					
Items that are or may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations	22	10,434	(2,548)	(1,474)	142
Available-for-sale financial assets	22	66	-	-	-
Other comprehensive income/(expense) for the year, net of tax		10,500	(2,548)	(1,474)	142
Total comprehensive (expense)/income for the year		(9,256)	(4,391)	13,905	4,550
(Loss)/Profit attributable to:					
Owners of the Company		(19,756)	(1,843)	15,379	4,408
(Loss)/Profit for the year		(19,756)	(1,843)	15,379	4,408
Total comprehensive (expense)/ income attributable to:					
Owners of the Company		(9,256)	(4,391)	13,905	4,550
Total comprehensive (expense)/ income for the year		(9,256)	(4,391)	13,905	4,550
Basic loss per ordinary share (sen):					
from continuing operations	21	(5.78)	(0.54)		

The notes on pages 72 to 145 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2017

Group	Attributable to owners of the Company				Non-distributable				Total equity RM'000
	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Merger relief reserve RM'000	Foreign currency translation reserve RM'000	Share option reserve RM'000	Accumulated losses RM'000		
At 1 April 2015	342,080	46,605	(103)	21,260	(8,999)	4,374	(135,553)	269,664	
Foreign currency translation differences for foreign operations	-	-	-	-	(2,548)	-	-	(2,548)	
Total other comprehensive expense for the year	-	-	-	-	(2,548)	-	-	(2,548)	
Loss for the year	-	-	-	-	-	-	(1,843)	(1,843)	
Total comprehensive expense for the year	-	-	-	-	(2,548)	-	(1,843)	(4,391)	
<i>Contributions by owners of the Company</i>									
Share options: - net options granted and forfeited	-	-	-	-	-	(4,374)	4,374	-	
Total transactions with owners of the Company	-	-	-	-	-	(4,374)	4,374	-	
At 31 March 2016	342,080	46,605	(103)	21,260	(11,547)	-	(133,022)	265,273	

Consolidated Statement of Changes in Equity

for the year ended 31 March 2017 (cont'd)

Group	Attributable to owners of the Company				Non-distributable				Total equity RM'000
	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Merger relief reserve RM'000	Foreign currency translation reserve RM'000	Available for sale reserve RM'000	Accumulated losses RM'000		
At 1 April 2016	342,080	46,605	(103)	21,260	(11,547)	-	(133,022)	265,273	
Foreign currency translation differences for foreign operations	-	-	-	-	10,434	-	-	10,434	
Available-for-sale financial assets	-	-	-	-	-	66	-	66	
Total other comprehensive income for the year	-	-	-	-	10,434	66	-	10,500	
Loss for the year	-	-	-	-	-	-	(19,756)	(19,756)	
Total comprehensive income/ (expense) for the year	-	-	-	-	10,434	66	(19,756)	(9,256)	
Transfer in accordance with Section 618(2) of the Companies Act 2016	46,605	(46,605)	-	-	-	-	-	-	
At 31 March 2017	388,685	-	(103)	21,260	(1,113)	66	(152,778)	256,017	

The notes on pages 72 to 145 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 March 2017

Company	Attributable to owners of the Company				Non-distributable				Total equity RM'000
	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Merger relief reserve RM'000	Foreign currency translation reserve RM'000	Share option reserve RM'000	Accumulated losses RM'000		
At 1 April 2015	342,080	46,605	(103)	21,260	389	3,741	(82,451)	331,521	
Foreign currency translation differences for foreign operations	-	-	-	-	142	-	-	142	
Total other comprehensive income for the year	-	-	-	-	142	-	-	142	
Profit for the year	-	-	-	-	-	-	4,408	4,408	
Total comprehensive income for the year	-	-	-	-	142	-	4,408	4,550	
<i>Contributions by owners of the Company</i>									
Share options: - net options granted and forfeited	-	-	-	-	-	(3,741)	3,741	-	
Total transactions with owners of the Company	-	-	-	-	-	(3,741)	3,741	-	
At 31 March 2016	342,080	46,605	(103)	21,260	531	-	(74,302)	336,071	

Statement of Changes in Equity

for the year ended 31 March 2017 (cont'd)

Company	Attributable to owners of the Company				Non-distributable				Total equity RM'000
	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Merger relief reserve RM'000	Foreign currency translation reserve RM'000	Share option reserve RM'000	Accumulated losses RM'000		
At 1 April 2016	342,080	46,605	(103)	21,260	531	-	(74,302)	336,071	
Foreign currency translation differences for foreign operations	-	-	-	-	(1,474)	-	-	(1,474)	
Total other comprehensive expense for the year	-	-	-	-	(1,474)	-	-	(1,474)	
Profit for the year	-	-	-	-	-	-	15,379	15,379	
Total comprehensive (expense)/ income for the year	-	-	-	-	(1,474)	-	15,379	13,905	
Transfer in accordance with Section 618(2) of the Companies Act 2016	46,605	(46,605)	-	-	-	-	-	-	
At 31 March 2017	388,685	-	(103)	21,260	(943)	-	(58,923)	349,976	

The notes on pages 72 to 145 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 March 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from operating activities					
(Loss)/Profit before tax		(11,645)	(11,880)	15,379	4,396
Adjustments for:					
Amortisation of government grant		(360)	(359)	-	-
Amortisation of intangible assets		2,770	2,459	-	-
Interest expense	18	48,982	36,370	8,621	356
Interest income		(1,443)	(2,134)	(288)	(258)
Net unrealised foreign exchange gain		(27,637)	(12,014)	(30,158)	(23,590)
Property, plant and equipment:					
- depreciation	3	6,517	6,629	950	148
- write-off	3	260	5	-	-
Reversal of inventories obsolescence		(487)	(168)	-	-
Receivables:					
- allowance of impairment		65	8,138	-	-
- write-off		-	4,376	-	3,092
Operating profit/(loss) before changes in working capital		17,022	31,422	(5,496)	(15,856)
Changes in deferred income		1,801	-	-	-
Changes in inventories		(8,653)	2,697	-	-
Changes in trade and other receivables, prepayments and other financial assets		(115,507)	44,994	(31,403)	28,082
Changes in intercompanies' balances		7,461	(6,731)	32,170	(20,302)
Changes in trade and other payables		54,746	18,292	40,619	16,559
Cash (used in)/generated from operations		(43,130)	90,674	35,890	8,483
Interest received		1,443	2,134	288	258
Tax (paid)/refunded		(1,074)	(855)	-	97
Net cash (used in)/from operating activities		(42,761)	91,953	36,178	8,838

Statements of Cash Flows

for the year ended 31 March 2017 (cont'd)

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment	(ii)	(37)	(1,349)	-	(24)
Increase in investment in a subsidiary		-	-	(43,550)	(6,998)
Net cash used in investing activities		(37)	(1,349)	(43,550)	(7,022)
Cash flows from financing activities					
Advance from ultimate holding company		11,370	4,374	11,370	4,374
Changes in deposits pledged		(6,533)	(3,264)	-	-
Drawdown of borrowings		15,827	2,244	-	-
Drawdown/(Repayment) of finance lease liabilities		35,687	(2,131)	(413)	-
Interest paid		(31,684)	(36,370)	(821)	(356)
Net settlement of trade facilities		(181)	(20,853)	-	-
Repayment of loans and borrowings		(11,871)	(28,877)	(3,500)	(1,500)
Net cash from/(used in) financing activities		12,615	(84,877)	6,636	2,518
Net (decrease)/increase in cash and cash equivalents		(30,183)	5,727	(736)	4,334
Effect of exchange rate fluctuations on cash held		26,265	(1,469)	(1,474)	142
Cash and cash equivalents at 1 April		(65,532)	(69,790)	5,204	728
Cash and cash equivalents at 31 March	(i)	(69,450)	(65,532)	2,994	5,204

Notes to statements of cash flows

(i) Cash and cash equivalents

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

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Short term deposits with licenced banks	11	31,941	25,904	1,000	-
Cash and bank balances	11	6,511	5,690	1,994	5,204
		38,452	31,594	2,994	5,204
Less: Pledged deposits	11	(31,750)	(25,217)	-	-
		6,702	6,377	2,994	5,204
Bank overdrafts	13	(76,152)	(71,909)	-	-
		(69,450)	(65,532)	2,994	5,204

(ii) Acquisition of property, plant and equipment

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Acquisition of property, plant and equipment	3	37	1,430	42,000	24
Financed by way of finance lease arrangements		-	(81)	(42,000)	-
Cash payments on purchase of property, plant and equipment		37	1,349	-	24

The notes on pages 72 to 145 are an integral part of these financial statements.

Notes to the Financial Statements

Scomi Engineering Bhd is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office of the Company is as follows:

Level 17, 1 First Avenue
Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 March 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interest in joint arrangements. The financial statements of the Company as at and for the financial year ended 31 March 2017 also include a joint operation.

The Company is principally engaged in investment holding activities, provision of management services to subsidiaries and the design, manufacture and supply of monorail trains and related services, whilst the principal activities of the subsidiaries are stated in Note 5 to the financial statements.

The ultimate holding company is Scomi Group Bhd, a public limited liability company incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

These financial statements were authorised for issue by the Board of Directors on 24 July 2017.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments and interpretations of the MFRSs framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 12, Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 107, Statement of Cash Flows – Disclosure Initiative
- Amendments to MFRS 112, Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, Financial Instruments (2014)
- MFRS 15, Revenue from Contracts with Customers
- Clarifications to MFRS 15, Revenue from Contracts with Customers
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4, Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, Investment Property – Transfers of Investment Property

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, Leases

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to 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

The Group plans to apply the abovementioned accounting standards, amendments and interpretations that are applicable to the Company and effective:

- from the annual period beginning on 1 April 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 April 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018.
- from the annual period beginning on 1 April 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

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

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.

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 and financial liabilities, and on hedge accounting.

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 from the adoption of MFRS 15, 9 and 16.

Notes to the Financial Statements *(cont'd)*

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

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

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future; that is for at least 12 months from the date of signing of the financial statements. The Directors have also considered the following matters:

- (i) On 7 November 2008, the Company had been awarded a monorail design, development and construction contract for Rs 1,097 crores (equivalent to about RM690 million) ("the Project I"). Phase 1 of Project I was completed and commissioned on 1 February 2014. Due to various circumstances, Phase 2 of Project I continued to encounter delays and certain key milestones stated in the contract have not been met as at 31 March 2017. The Company has continuously apprised the customer on the status of the project and sought extensions of time as allowed under the contract. In the prior years, a subsidiary had secured financing facilities totalling RM205.3 million for working capital and trade financing purposes to fund Project I.

On 6 June 2014, the lender, subject to conditions, extended the financing facilities period up to 26 September 2015 with a limit on the use of the financing facilities totalling to RM205.3 million. On 14 August 2014, the lender revised the limit on use of the financing facilities to RM231.9 million with no change to the conditions and expiry date of the facility.

In view of the continuing delays, in 2015, the lender, subject to conditions, extended the financing facilities period up to 14 July 2016 with a revised limit on the use of the financing facilities totalling to RM228.4 million. On 29 June 2016, the lender, subject to conditions, has further extended the financing facilities period up to 15 August 2017 with a revised limit of RM226.0 million.

On 17 June 2016, the Company obtained a further Extension of Time ("EOT") up to 15 August 2017 from its customer, Mumbai Metropolitan Region Development Authority ("MMRDA"). During the year, the Project I activities and work continued normally except for the delayed payments on certain contractors' interim claims where the customer and the Group had agreed for the interim claims to be settled through arbitration.

A panel of three arbitrators have been appointed in December 2015. The Group expected the arbitration proceedings to be completed within 18 months. The arbitration proceedings commenced in February 2017 and as of the date of the financial statements, the hearing on this arbitration is still in progress.

- (ii) On 10 December 2010, Scomi Transit Projects Sdn Bhd ("STP"), a subsidiary of the Company, had been awarded a monorail expansion contract for RM494 million ("the Project II"). Due to various circumstances, Project II continued to encounter delays and certain key milestones stated in the contract have not been met as at 31 March 2017. STP has continuously apprised the customer, Prasarana Malaysia Berhad ("PMB") on the status of the project and sought extensions of time as allowed under the contract.

STP received a letter from PMB on 4 January 2016 and 18 February 2016 respectively, being notification for STP to remedy the delay with a remedial period of 60 days. Upon expiry of the 60 days remedial period, PMB would terminate the principal contract, supplemental agreement and second supplemental contract. On 1 March 2016, STP obtained an ex-parte injunction against PMB for the notices of remedy and restraining PMB from terminating the contract. Subsequently, the ex-parte injunction was extended until 1 April 2016. On 9 March 2016, STP received a letter from PMB dated 8 March 2016, being notification for STP to remedy the delay with a remedial period of 60 days. Upon expiry of the 60 days remedial period, PMB would terminate the contract. On 15 March 2016, STP received a letter dated 11 March 2016 from PMB's solicitors stating that PMB would not be relying on its two earlier purported notices dated 4 January 2016 and 18 February 2016 and further gave an undertaking that it would not rely on these two notices to terminate the contract. Following this development, on 1 April 2016, the Group announced that PMB admitted that the two notices issued on 4 January 2016 and 18 February 2016 were defective and gave an undertaking to Court that PMB would not terminate the contract. As a result, the injunction against PMB was later withdrawn by STP without prejudice to STP's rights to commence other legal actions or to apply for another injunction or other relief against PMB's notice dated 8 March 2016. Since then, there is no development with regard to this notice.

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement (continued)

During the financial year, the Project II activities and work continued normally except for the matters as further explained below.

On 10 June 2016, STP served claims on PMB amounting to approximately RM365 million pursuant to Section 5 of the Construction Industry Payment & Adjudication Act 2012 ("CIPAA") in respect of contract price variations and claims for extension of time and related costs or price increases ("CIPAA Payment Claims"). In the event PMB disputes the CIPAA Payment Claims, STP would refer the CIPAA Payment Claims to adjudication under CIPAA. On the same date, the Group announced that STP received a notice from PMB ("the Notice") on 9 June 2016 which gave STP 14 days from the notice date to renew a performance bond connected with Project II, failing which the Project II contract would be terminated. Following receipt of the Notice, STP initiated legal proceedings against PMB by way of Originating Summons dated 20 June 2016.

On 21 June 2016, the High Court in Kuala Lumpur granted an interim order and injunction restraining PMB from terminating the contract based on the Notice or otherwise giving effect to the Notice pending the hearing and disposal of the Originating Summons and further orders of the High Court.

On 21 July 2016, STP issued a Notice of Arbitration against PMB to resolve the disputes through arbitration. On 22 July 2016, the Court made an order dismissing the Originating Summons filed by STP on 20 June 2016. However, the Court granted an injunction preventing termination of the contract by PMB until 26 July 2016. On 25 July 2016, STP filed a Notice of Appeal against the dismissal of the Originating Summons filed on 20 June 2016, which appeal was fixed for hearing on 16 August 2016 ("Appeal Hearing") and subsequently adjourned to various dates in 2016 and 2017 of which the latest date is on 28 August 2017 as further explained in Note 29(a) and Note 30.

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 Project II until the Appeal Hearing that was adjourned to 12 July 2017 for which hearing was postponed to 28 August 2017. This interim injunction lapsed on 12 July 2017.

Notwithstanding the above development, on 3 March 2017, STP and PMB entered into the Third Supplemental Contract ("TSC") to the Principal Contract dated 3 June 2011 as supplemented by the First Supplemental Agreement dated 16 April 2014 and the Second Supplemental Agreement dated 15 April 2015 for the completion of this project (collectively, the "Contracts"). This TSC comes with conditions precedent and will lapse and become null and void should the conditions precedent not be fulfilled before 3 May 2017. On 3 May 2017, PMB served a letter to STP, stating that the last Condition Precedent ("Last CP") under the TSC has not been fulfilled within the Conditions Precedent period and therefore the TSC has automatically lapsed and become null and void. Subsequently, STP officially provided an additional document with regard to the issue on 16 May 2017.

On 14 June 2017, STP issued a Notice of Dispute to PMB to refer the dispute to a Dispute Adjudication Board ("DAB") for resolution in accordance with the Contract provisions. Both STP and PMB agreed to dispense reference of the alleged nullification dispute to the DAB and to refer the dispute directly to arbitration. On 28 June 2017, PMB communicated in writing to STP stating that it was maintaining its position that the last condition precedent of the TSC had not been fulfilled within the Conditions Precedent Period and that therefore the TSC has automatically lapsed and become null and void.

Following the above developments, STP filed an action ("Action") with respect to the alleged nullification in the Court against PMB on 3 July 2017 as further explained in Note 30. The Action is fixed for hearing on 31 July 2017.

On 13 July 2017, STP issued a Notice of Arbitration against PMB to resolve the Dispute between STP and PMB by way of arbitration.

Notes to the Financial Statements *(cont'd)*

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement (continued)

Acting on the basis of advice of external legal counsel, the Directors of the Company are confident that STP has met the conditions of the TSC and therefore the TSC has not lapsed and become null and void. Accordingly, STP has grounds for restraining PMB from terminating the Contracts and recovering the outstanding amounts and claims due from the customer through the aforesaid legal proceedings. As at 31 March 2017, as disclosed in Note 10, the Group's receivables include trade receivables and amounts due from customers on contract of RM47.3 million and RM162.8 million, respectively, in respect of this Project. As of the date of the financial statements, the hearing on this litigation matter is currently in progress.

In the previous years, the lenders of STP have, subject to conditions, further extended the financing facilities period up to 31 December 2015 with the latest revised cumulative limit on the use of the financing facilities totalling to RM222.5 million. As disclosed in Note 13, the Group has outstanding revolving credits and bank overdraft amounting to RM213.2 million owing to the project lenders that are classified as current liabilities. The Group, together with the ultimate holding company's management, are still in the process of fulfilling the conditions set by the lenders who have provided project financing for this project and have sought further extensions from the lenders in view of the on-going litigation proceedings with PMB. Based on the past experience, the Group believes that it will continue to be able to obtain the extension of financing facilities from the project lenders.

As explained above and as of the date of the financial statements, the Action against PMB and the Appeal Hearing on the litigation matter of this project are currently in progress with the hearing dates scheduled on 31 July 2017 and 28 August 2017, respectively. Therefore, the ultimate outcome of these and related recoveries of amounts owing on this Project II cannot presently be determined. In relation to this, the Group has yet to secure further extension from the lenders who have provided project financing for the Project II.

- (iii) On 30 July 2011, the Metro Company of Sao Paulo awarded a contract for the implementation of a monorail system, including design, civil works, manufacture, supply of systems and rolling stock material, including a fleet of 24 trains (3 cars per train) for the Line 17 - Gold - of Metro Sao Paulo ("the Project III") for a lump sum amount of BRL1,396 million (equivalent to about RM1,885 million) to the Consorcio Monotrilho Integracao ("the Consortium"), for which the Group's share of the value of the Contract is BRL132 million (equivalent to about RM178 million) based on its scope of works. In the prior years, a subsidiary had secured financing facilities totalling RM39 million for working capital and project financing purposes to fund the Project III. Due to changes in the scope of work from the initial 24 trains (3 cars per train) to 18 trains (5 cars per train) and various circumstances, the Project III had encountered delays. The Consortium has continuously apprised Metro Company of the status of the project and obtained extensions of time as allowed under the contract terms.

In 2015, Metro Company of Sao Paulo had announced delays in the projects to December 2019 due to various circumstances. As such, the lender, on 3 June 2015, had also extended the project financing facilities totalling RM39 million to 30 July 2017. On 16 June 2017, the lender had further extended the loan to 31 December 2019 with revised project financing facilities totalling RM46 million.

On 30 May 2016, the Company and the other Consortium members have executed a Term of Agreement ("TOA") with Metro Company of Sao Paulo to regulate the Consortium Member's altered responsibilities. Under the TOA, the Group's scope of work has been varied to include increased scopes. On 25 July 2016, Metro Company of Sao Paulo issued letter of consent on the additional scope of works to the Group and therefore it has assumed full responsibilities and obligation for Project III. The value of this additional scope of works is BRL371 million (equivalent to about RM503 million). As a result, the Group's share of the total value of the Contract is BRL503 million (equivalent to about RM681 million).

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement (continued)

The Directors have reviewed the operational cash flow projections as part of their going concern assessment. The Directors have a reasonable expectation that the Group and the Company will be able to meet their liabilities and will have adequate resources to continue in operational existence for the foreseeable future that is based on a positive outcome of the legal proceedings against PMB, the continued financial support from lenders and ability to attain profitable operations to generate sufficient cash flows to fulfil their obligations as and when they fall due.

On this basis, the Directors consider that it is appropriate to prepare the financial statements of the Group and the Company on a going concern basis.

Accordingly, the financial statements of the Group and of the Company do not include any adjustments relating to the classification and recoverability of recorded assets amounts or the classification and additional amounts of liabilities that may be necessary if the Group and the Company are unable to continue as going concerns.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated by the Directors and are based on historical experience, Directors' best knowledge of current events and actions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions involving a higher degree of judgement or complexity, or area where estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Assessment of penalties payable

Provision for liquidated ascertained damages ("LAD") are possible penalties that may arise from the late delivery of contract deliverables. In assessing the probability that an outcome of resources will be required to settle the obligation, management considers the outcome of the Extension of Time application based on circumstances of the projects, specific past experiences with the employer and expert advice as detailed below:

(a) Contract with Mumbai Metropolitan Region Development Authority

On 7 November 2008, the MMRDA of India awarded a contract for the Design, Development and Construction of a Monorail System ("the Project I" or "the Contract") for a lump sum amount of Rs 2,460 crores (equivalent to about RM1.5 billion) to the unincorporated consortium of Larsen & Toubro Ltd and Scomi Engineering Bhd ("the Consortium"), for which Scomi Engineering Bhd's ("SEB" or "the Company") share of the value of the Contract is Rs 1,097 crores (equivalent to about RM690 million) based on its scope of works. The design, development, construction/manufacture/supply, testing and commissioning of the system including safety certification for commercial operations are to be completed within 30 months from the award of the Contract.

Notes to the Financial Statements *(cont'd)*

1. BASIS OF PREPARATION (CONTINUED)

(d) Critical accounting estimates and judgements (continued)

(i) Assessment of penalties payable (continued)

(a) Contract with Mumbai Metropolitan Region Development Authority (continued)

The Consortium had continuously apprised MMRDA of the status of the project and sought extensions of time as allowed under the Contract terms. Following discussions, MMRDA had on 31 May 2011 granted the Consortium with an EOT for each of the Phase 1 and Phase 2 works completion key-dates to 31 December 2011 and 22 November 2012 respectively.

As the Project I encountered further delays, certain Phase 1 key milestones stated in the Contract were not met as at 31 December 2011. The Consortium had requested for a further EOT for Phase 1 up to 14 July 2012 vide its letter dated 30 December 2011 and the Company engaged specialist advisors to assist in the assessment of delay events, submission of claims for extension of time and assessing the Consortium's contractual obligations.

A specialist advisor via an EOT claim report dated 8 November 2012 had stated that the Consortium had grounds to apply for a further extension of time for both Phase 1 and Phase 2 up to July 2014.

Based on the specialist advisors assessment, the Consortium vide its letter dated 9 November 2012 requested for a further EOT for Phase 1 and Phase 2 until 26 July 2014. Subsequent to the above submissions, MMRDA vide a letter dated 4 December 2012 had granted the Consortium a further EOT of up to 31 March 2013 for Phase 1 and up to 31 December 2013 for Phase 2.

Subsequent to the submissions for a further EOT by the Consortium vide its letter dated 20 November 2013, MMRDA vide a letter dated 13 December 2013 had granted the Consortium a further EOT of up to 30 June 2014 for the project and vide a letter dated 17 April 2014, had further granted the Consortium an EOT of up to 26 September 2015 for the project. On 1 February 2014, Phase 1 has been officially commissioned.

Due to further delays, certain Phase 2 key milestones stated in the Contract were not met as at 31 March 2015. Based on management's internal assessment, Phase 2 was expected to be completed in 2016. In 2016, based on the specialist advisors assessment, the Consortium vide its letter dated 9 September 2015 requested for a further EOT for Phase 2 until 9 August 2017. Subsequent to the above submissions, MMRDA vide a letter dated 17 June 2016 had granted the Consortium a further and final EOT of up to 15 August 2017 for the project.

Notwithstanding that the EOT had been granted by MMRDA, MMRDA reserves its rights to recover liquidated damages, if any, at the end of the project.

In reliance of the past experience with MMRDA in granting EOTs and the advice received from the specialist advisor, the Directors are of the opinion that no provision for potential penalties or liquidated damages is required as at 31 March 2017.

(b) Contract with Prasarana Malaysia Berhad

On 10 December 2010, STP was awarded a monorail expansion contract for RM494 million ("the Project II"). The Project II was to be completed on 31 July 2013. Due to various circumstances, the Project II had encountered delays and certain key milestones stated in the contract had not been met as at 31 March 2017.

STP has continuously apprised the customer of the status of the project and sought extension of time as allowed under the contract terms. Following discussions, the customer had on 19 December 2012 granted STP with EOT for the first four key milestones to 30 April 2013 but the overall completion date remained at 31 July 2013. This has led to further claim submissions by STP to the customer.

1. BASIS OF PREPARATION (CONTINUED)

(d) Critical accounting estimates and judgements (continued)

(i) Assessment of penalties payable (continued)

(b) Contract with Prasarana Malaysia Berhad (continued)

Subsequent to the submissions, the customer vide a letter dated 2 October 2013 had granted STP a further EOT of up to 27 December 2013. As the Project II encountered further delays, the customer vide a letter dated 14 March 2014 had granted STP a further EOT of up to 25 April 2014.

A specialist advisor via an EOT claim report dated 22 May 2014 had stated that STP has grounds to apply for a further extension of time up to 18 September 2015. On 15 April 2015, the customer vide a supplemental letter granted STP a further EOT up to 15 June 2016.

During the financial year, the Project II activities and work continued normally except for the matters as further explained below.

On 10 June 2016, the Group announced that STP has received a notice from PMB ("the Notice") on 9 June 2016 which gave STP 14 days from the notice date to renew a performance bond connected with Project II, failing which the Project II contract would be terminated. Following receipts of the Notice, STP initiated legal proceedings against PMB by way of Originating Summons dated 20 June 2016.

On 21 June 2016, the High Court in Kuala Lumpur granted an interim order and injunction restraining PMB from terminating the contract based on the Notice or otherwise giving effect to the Notice pending the hearing and disposal of the Originating Summons and further orders of the High Court.

On 21 July 2016, STP issued a Notice of Arbitration against PMB to resolve the disputes through arbitration. On 22 July 2016, the Court made an order dismissing the Originating Summons filed by STP on 20 June 2016. However, the Court granted an injunction preventing termination of the contract by PMB until 26 July 2016. On 25 July 2016, STP filed a Notice of Appeal against the dismissal of the Originating Summons filed on 20 June 2016, which appeal was fixed for hearing on 16 August 2016 ("Appeal Hearing") and subsequently adjourned to various dates in 2016 and 2017 of which the latest date is on 28 August 2017 as further explained in Note 29(a) and Note 30.

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 Project II until the Appeal Hearing that was adjourned to 12 July 2017 for which hearing was postponed to 28 August 2017. This interim injunctions lapsed on 12 July 2017.

Based on the advice received from both the specialist and legal advisors, the Directors are of the opinion that no provision for potential penalties is required as at 31 March 2017.

(c) Contract with Metro Company of Sao Paulo

On 30 July 2011, the Metro Company of Sao Paulo ("Metro Company") awarded a contract for the implementation of a monorail system, including design, civil works, manufacture, supply of systems and rolling stock material, including a fleet of 24 trains (3 cars per train) for the Line 17 - Gold - of Metro Sao Paulo ("Project III") for a lump sum amount of BRL1,396 million (equivalent to about RM1,885 million) to the Consorcio Monotrilho Integracao ("the Consortium"), for which the Company's share of the value of the Contract is BRL132 million (equivalent to about RM178 million) based on its scope of works. The Project III was to be completed by January 2015.

Notes to the Financial Statements *(cont'd)*

1. BASIS OF PREPARATION (CONTINUED)

(d) Critical accounting estimates and judgements (continued)

(i) Assessment of penalties payable (continued)

(c) Contract with Metro Company of Sao Paulo (continued)

Due to changes in the scope of work from the initial 24 trains (3 Cars per train) to 18 trains (5 Cars per train) and various circumstances, the Project III had encountered delays. The Consortium had continuously apprised Metro Company of the status of the project and sought extensions of time as allowed under the contract terms. Following discussions, Metro Company had on 30 August 2013 granted the Consortium with an EOT to 28 September 2015.

In 2015, Metro Company announced delays in Project III with the expected completion in 2019 due to various circumstances and as such, granted the Consortium an EOT to 27 December 2019 vide a letter dated 24 April 2015.

During the year, the Project III activities and work continued normally. On 30 May 2016, the Company and the other Consortium members have executed a Term of Agreement ("TOA") with Metro Company of Sao Paulo to regulate the Consortium Member's altered responsibilities. Under the TOA, the Group's scope of work has been varied to include increased scopes. On 25 July 2016, Metro Company of Sao Paulo issued letter of consent on the additional scope of works to the Group and therefore it has assumed full responsibilities and obligation for Project III. The value of this additional scope of works is BRL371 million (equivalent to about RM503 million). As a result, the Group's share of the total value of the Contract is BRL503 million (equivalent to about RM681 million).

In reliance of the EOT granted by Metro Company vide letter dated 24 April 2015 and the advice received from the specialist advisor, the Directors are of the opinion that no provision for potential penalties is required as at 31 March 2017.

(ii) Assessment of indirect taxes payable

During the course of execution of the Project I described in Note 1(d)(i)(a) above, the Company and its wholly-owned subsidiary, Scomi Rail Bhd ("SRB"), will supply goods and services which would typically attract various indirect taxes in India. The tax consultants of the Company had assessed the potential indirect taxes payable to the Central Government, State Government and Local Municipality of that country and are of the view that:

- (a) There are certain legislations empowering the Central Government, State Government and Local Authority of that country to grant exemptions/concessions in cases where the respective Governments and authorities are satisfied that the project is in the interest of the public;
- (b) Past precedents indicated that the respective Governments and Authorities of that country have exercised their discretionary powers to grant exemptions/concessions for specific projects in the interest of the public; and
- (c) Given the legal provisions, and past precedents, a reasonable case for tax exemptions/concessions can be made, subject to discretions of the respective Governments and Authorities of that country.

Applications and representations had been made by management to the respective Governments and Authorities and the matter is under consideration at the respective authorities.

1. BASIS OF PREPARATION (CONTINUED)

(d) Critical accounting estimates and judgements (continued)

(ii) Assessment of indirect taxes payable (continued)

Following the Central Government of India budget in March 2012, the custom duty rates had been reduced. As a result, the total imputed value of custom duties based on delivery of 15 trains and applying the revised applicable tax rates had reduced indirect taxes by RM13.1 million (Rs 22 crores). The Central Government of India Budget announced in March 2013 that the custom duty rates had been reduced further from 16% to 13% which had reduced indirect taxes exposure by RM2.8 million (Rs 5 crores). In addition, with effect from 1 January 2014, under the India-Malaysia Comprehensive Economic Cooperation Agreement, the basic custom duties for rolling stocks was reduced to 0%, which further reduced the exposure by RM1 million (Rs 2 crores). Based on the above, there is no residual financial exposure on the indirect taxes payable, as the impact of any remaining indirect taxes payable can be offset against the maximum amount contractually reimbursable by MMRDA.

The Company had also issued a writ of summons against the Local Authority to recover indirect taxes paid to date and is confident of a successful outcome based on past legal precedents. The hearing date fixed on 31 March 2016 had been postponed and there is currently no fixed hearing date as of the date of this report.

Based on the above, the Directors are of the opinion that:

- (a) There is a reasonable case for claim of tax exemptions/concessions;
- (b) A reasonable estimate of the likely outcome of additional indirect taxes payable, if any, cannot be ascertained at this stage; and
- (c) A full recovery of indirect taxes paid in advance amounting to RM38.5 million (2016:RM34.6 million) as disclosed in Note 10 is expected.

(iii) Estimated impairment of intangible assets

The Group tests goodwill and capitalised development costs work-in-progress for impairment annually and has also tested capitalised development costs for impairment due to certain impairment indicators. The recoverable amounts of cash generating units ("CGUs") were determined based on value in use calculations. For the value in use calculations, significant judgement is required in the estimation of the present value of future cash flows generated, which involve uncertainties and are significantly affected by assumptions used and judgement made regarding estimates of future cash flows and discount rates as set out in Note 4 to the financial statements, which resulted in no impairment arising.

The Directors are of the opinion that any reasonably expected change in the key assumptions used to determine the recoverable amounts of the CGUs, would not result in any impairment.

(iv) Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the temporary differences can be utilised. Significant judgement is required in determining the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable income. Based on projections of future taxable income and the underlying assumptions as detailed in Note 1(d) including a positive outcome with PMB, the continued financial support from lenders, the ability of the Group and of the Company to obtain EOT for the on-going projects and to attain profitable operations to generate sufficient cash flows to fulfil their obligations as and when they fall due, the Company and subsidiaries have recognised deferred tax assets on tax losses and unabsorbed capital allowances incurred amounting to approximately RM35 million (2016:RM34 million).

Notes to the Financial Statements *(cont'd)*

1. BASIS OF PREPARATION (CONTINUED)

(d) Critical accounting estimates and judgements (continued)

(v) Construction contracts profits

The Group recognises contracts profits based on the percentage of completion method. The percentage of completion of a construction contract is determined based on the proportion that the contract costs incurred for work performed to-date bear to the estimated total costs for the contract. When it is probable that the estimated total contract costs of a contract will exceed the total contract revenue of the contract, the expected loss of the contract is recognised as an expense immediately.

Significant judgement is required in the estimation of total contract costs. Where the actual total contract costs is different from the estimated total contract costs, such differences will impact the contract profits recognised.

(vi) Construction contracts revenue

The Group has estimated total contracts revenue based on the initial amount of revenue agreed in the contract, variations in the contract work and claims that can be measured reliably based on the latest available information and reliance on work of specialist. In the absence of such information, the Directors' best estimates are derived from reasonable assumptions, experience and judgement. During the financial year, variation orders were recognised based on percentage of completion less related costs in respect of additional work scope instructions by the customers and additional interest costs and overheads incurred due to delays, which have been granted EOTs or based on legal advice and independent assessments by specialist advisors.

The claims for EOT and variation orders ("VO") supporting the recognition of revenue are subject to significant risks and uncertainties in light of the nature of the projects. In estimating the amounts of claims for EOT and VO, estimates and judgements applied included expectation of future events. Negotiations and final actual acceptance of the claims by the customers could be significantly different from the Directors' estimates of the future profitability or outcomes since anticipated events may not occur as expected and the variation could be material.

Where the actual approved variations and claims differ from the estimates, such differences will impact the contract revenue, profit/(losses) recognised and the amounts due from customers on contract.

(vii) Amortisation and impairment of intangible assets

Capitalised development expenditure is recognised when the criteria for recognition is met and amortised based on an estimated sales unit method. Significant judgement is required in determining the estimated sales units, which is based on technological obsolescence, secured contracts, projects tendered and expectations of market growth, which determine the amount of amortisation recognised. During the current financial year, the Directors re-assessed and determined that the estimated sales units for monorail are 750 units (2016: 750 units).

The Directors are of the opinion that any reasonably expected change in the key assumptions used to determine the recoverable amounts of the CGUs, would not result in any impairment.

(viii) Impairment of trade receivables

The Group recognises impairment of trade receivables when there is objective evidence that the Group will not be able to collect all amounts receivable according to the original terms. Significant judgement is required in the assessment of the recoverability of trade receivables to estimate the amount and timing of future cash flows to determine the impairment amount required. To the extent that actual recoveries deviate from management's estimates, such variances may have a material impact on the profit or loss. Based on Directors' assessment, they believe that the current level of impairment of trade receivables is adequate.

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 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 the 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 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 investments 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 acquisition, 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.

As part of the transition to MFRS in 2012, the Group elected not to restate the business combinations that occurred before the date of transition to MFRS ie, 1 January 2011. Under the merger method of accounting, the results of the subsidiaries are presented as if the subsidiaries had been combined throughout the current and previous financial years. The differences between the cost of acquisition and the nominal value of the share capital and reserves of the merged subsidiaries is taken to merger reserve.

Notes to the Financial Statements *(cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(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.

(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 control

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 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) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method. Investments in joint venture 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.

(vii) 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 jointly controlled entity 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency

(i) Foreign currency transactions

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

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

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, excluding foreign operations in hyperinflationary economies, 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 control, significant influence or joint control 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 or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Notes to the Financial Statements *(cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) *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.

(b) *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 are subject to review for impairment (see note 2(j)(i)).

Financial liabilities

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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 the 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 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) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. 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 profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, 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.

(v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(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. 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.

Notes to the Financial Statements *(cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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 income" and "other 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 or 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.

(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 from the date that they are available for use. 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. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• Freehold buildings	50 years
• Leasehold land	15 years
• Leasehold buildings	15 years
• Rental equipment	8 years
• Furniture, fixtures and equipment	3 - 10 years
• Motor vehicles	5 - 7 years
• Plant and machinery	5 - 12 years
• Monorail test track	33 years

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(ii) Operating leases

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position.

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.

(f) Intangible assets

(i) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted joint venture, 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 joint venture.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

Notes to the Financial Statements *(cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (continued)

(iii) 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.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they 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 assets.

The basis for amortisation for the current and comparative periods are as follows:

• Monorail	750 units
• Bus	5 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(g) Inventories

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

The cost of inventories is measured based on weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers on contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to customers on contract which is part of the deferred income in the statement of financial position.

(i) Cash and bank balances

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair 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.

(j) Impairment

(i) Financial assets

All financial assets (except for investments in subsidiaries and investments in joint arrangements) 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 financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables 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 the 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 (CONTINUED)

(j) Impairment (continued)

(ii) Other assets

The carrying amounts of other assets (except for inventories, amount due from customers on contracts, deferred tax asset and assets arising from employee benefits) 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 that have indefinite useful lives or that are not yet available for use, 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 purposes. 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 amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts 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 year in which the reversals are recognised.

(k) Equity instruments

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

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Equity instruments (continued)

(iii) Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statement of changes in equity.

Where treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(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.

(ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year 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.

(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.

(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 discount 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, and 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.

Notes to the Financial Statements *(cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revenue and other income (continued)

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period. The stage of completion is assessed by reference to surveys of work performed.

(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) Government grants

Government grants that compensate the Group for the cost of an asset 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 and 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.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(vi) Management fees

Management fees are recognised on an accrual basis by reference to completion of the specific transaction, assessed on the basis of the actual services provided as a proportion of the total services to be provided.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 year, 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 years.

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 liabilities and assets 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.

(q) Earnings per ordinary share

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

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 share options granted to employees.

Notes to the Financial Statements *(cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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's operating 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.

(t) Fair value measurement

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 technique 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.

3. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold	Leasehold	Freehold	Leasehold	Rental	Furniture,	Motor	Plant and	Monorail	Work-in-	Total
	land	land	buildings	buildings	equipment	fixtures and	vehicles	machinery	test track	progress	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost											
At 1 April 2015	8,020	-	33,724	-	6,261	12,097	9,518	25,295	14,795	73	109,783
Additions	-	-	-	-	-	27	-	1,120	-	283	1,430
Write-off	-	-	-	-	-	(19)	-	-	-	-	(19)
Reclassification	-	-	-	-	(2,470)	3,570	-	(1,100)	-	-	-
Effect of movements in exchange rates	-	-	-	-	-	(17)	-	-	-	-	(17)
At 31 March 2016/ 1 April 2016	8,020	-	33,724	-	3,791	15,658	9,518	25,315	14,795	356	111,177
Additions	-	-	-	-	-	28	-	9	-	-	37
Write-off	-	-	-	-	-	(17)	-	-	-	(257)	(274)
Reclassification (Note 3.2)	(8,020)	8,020	(33,724)	33,724	-	99	-	-	-	(99)	-
Effect of movements in exchange rates	-	-	-	-	-	352	-	-	-	-	352
At 31 March 2017	-	8,020	-	33,724	3,791	16,120	9,518	25,324	14,795	-	111,292
	Note 3.2	Note 3.2	Note 3.2	Note 3.2							

Notes to the Financial Statements *(cont'd)*

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land RM'000	Leasehold land RM'000	Freehold buildings RM'000	Leasehold buildings RM'000	Rental equipment RM'000	Furniture, fixtures and equipment RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Monorail test track RM'000	Work-in-progress RM'000	Total RM'000
Depreciation											
At 1 April 2015	-	-	2,259	-	3,481	11,758	3,940	11,742	4,422	-	37,602
Depreciation for the year	-	-	717	-	-	1,401	1,714	2,304	493	-	6,629
Write-off	-	-	-	-	-	(14)	-	-	-	-	(14)
Reclassification	-	-	-	-	310	(134)	-	(176)	-	-	-
Effect of movements in exchange rates	-	-	-	-	-	(11)	-	-	-	-	(11)
At 31 March 2016/ 1 April 2016	-	-	2,976	-	3,791	13,000	5,654	13,870	4,915	-	44,206
Depreciation for the year	-	254	418	690	-	1,063	1,714	1,885	493	-	6,517
Write-off	-	-	-	-	-	(14)	-	-	-	-	(14)
Reclassification (Note 3.2)	-	-	(3,394)	3,394	-	-	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	-	-	194	-	-	-	-	194
At 31 March 2017	-	254	-	4,084	3,791	14,243	7,368	15,755	5,408	-	50,903
Carrying amounts											
At 1 April 2015	8,020	-	31,465	-	2,780	339	5,578	13,553	10,373	73	72,181
At 31 March 2016	8,020	-	30,748	-	-	2,658	3,864	11,445	9,880	356	66,971
At 31 March 2017	-	7,766	-	29,640	-	1,877	2,150	9,569	9,387	-	60,389

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Leasehold land RM'000	Leasehold buildings RM'000	Furniture, fixtures and equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At 1 April 2015	-	-	1,574	256	1,830
Additions	-	-	24	-	24
At 31 March 2016/1 April 2016	-	-	1,598	256	1,854
Additions	8,020	33,980	-	-	42,000
At 31 March 2017	8,020	33,980	1,598	256	43,854
Depreciation					
At 1 April 2015	-	-	1,424	256	1,680
Depreciation for the year	-	-	148	-	148
At 31 March 2016/1 April 2016	-	-	1,572	256	1,828
Depreciation for the year	254	690	6	-	950
At 31 March 2017	254	690	1,578	256	2,778
Carrying amounts					
At 1 April 2015	-	-	150	-	150
At 31 March 2016	-	-	26	-	26
At 31 March 2017	7,766	33,290	20	-	41,076

Notes to the Financial Statements *(cont'd)*

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.1 Impairment

Certain property, plant and equipment of a subsidiary of the Group were tested for impairment due to losses incurred. The monorail related plant and equipment of a subsidiary were tested together with goodwill and monorail capitalised development cost as disclosed in Note 4.2.

3.2 Reclassification of land and buildings from freehold to leasehold

During the financial year, the Group completed the sale and leaseback of a parcel of industrial land together with all those industrial buildings and structures to a third party. The Group has concluded that this transaction contains a lease arrangement and is a finance lease. Accordingly, the freehold land and buildings of the Group are reclassified from freehold land and buildings to leasehold land and buildings and the lease of the land and buildings has been accounted for in the Company.

3.3 Land and buildings, equipment and motor vehicles acquired under finance lease arrangement

The net book value of property, plant and equipment acquired under finance lease arrangements by the Group and the Company at the end of the reporting period are as below:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Land and buildings	37,406	-	41,056	-
Equipment and motor vehicles	5,944	7,685	-	-
Total	43,350	7,685	41,056	-

4. INTANGIBLE ASSETS

Group	Note	Capitalised development costs			Development costs work-in-progress		Total RM'000
		Goodwill RM'000	Monorail RM'000	Bus RM'000	Mass rapid transit RM'000	Propulsion RM'000	
Cost							
At 1 April 2015/ 31 March 2016/ 31 March 2017		27,914	115,207	4,820	7,632	13,580	169,153
Amortisation							
At 1 April 2015		-	9,416	815	-	-	10,231
Amortisation for the year	4.1	-	1,224	1,235	-	-	2,459
At 31 March 2016/ 1 April 2016		-	10,640	2,050	-	-	12,690
Amortisation for the year	4.1	-	-	2,770	-	-	2,770
At 31 March 2017		-	10,640	4,820	-	-	15,460
Carrying amount							
At 1 April 2015		27,914	105,791	4,005	7,632	13,580	158,922
At 31 March 2016		27,914	104,567	2,770	7,632	13,580	156,463
At 31 March 2017		27,914	104,567	-	7,632	13,580	153,693

4.1 Amortisation

Monorail

The amortisation of capitalised development costs is allocated to the cost of inventory and is recognised in cost of sales when inventory is sold. During the year, there is no monorail inventory sold and accordingly, there is no amortisation made. In 2016, amortisation included within construction contract costs was RM1,224,000.

Bus

The development of the bus chassis has been completed during the financial year.

Notes to the Financial Statements *(cont'd)*

4. INTANGIBLE ASSETS (CONTINUED)

4.2 Impairment

Rail Operations

The recoverable amounts of Rail Operations goodwill are based on "value in use" calculations.

The projections over a five year period were based on an approved business plan and reflect the expectation of usage, revenue growth, operating costs and margins based on past experience.

The key assumptions used in the value in use calculations for the Rail Operations cash generating unit are as follows:

	Value in use basis	Pre-tax discount rate	Profit margin range	Terminal growth rate
2017				
Rail operations	Existing secured projects and anticipated projects over the remaining useful life of the current monorail technology	16% - 20%	3% - 30%	Not applicable
2016				
Rail operations	Existing secured projects and anticipated projects over the remaining useful life of the current monorail technology	16% - 21%	3% -30%	Not applicable

The discount rates applied to the respective project impairment assessment is based on the internal weighted average cost of capital adjusted for the country risk premium.

Development cost work-in-progress have been tested for impairment based on expectations of market growth and industry growth.

	Value in use basis	Pre-tax discount rate	Profit margin range	Terminal growth rate
2017				
Mass Rapid Transit (MRT)	Anticipated projects over the expected useful life of the current MRT technology	16%	14%	Not applicable
Propulsion	Existing secured projects and anticipated projects over the remaining useful life of the current propulsion technology	10%	3% - 30%	Not applicable
2016				
Mass Rapid Transit (MRT)	Anticipated projects over the expected useful life of the current MRT technology	16%	14%	Not applicable
Propulsion	Existing secured projects and anticipated projects over the remaining useful life of the current propulsion technology	10%	3% -30%	Not applicable

A reasonable possible change in the assumptions used will not result in any change to the impairment conclusion.

5. INVESTMENTS IN SUBSIDIARIES

	Note	Company	
		2017 RM'000	2016 RM'000
Unquoted shares at cost			
At 1 April		122,741	115,743
Additions	5.1	43,550	6,998
At 31 March		166,291	122,741
Less: Impairment loss	5.3	(2,246)	(2,246)
		164,045	120,495
Amounts receivable from subsidiaries		248,200	248,200
		412,245	368,695

5.1 The Company increased its investment in Urban Transit Private Limited and Urban Transit Servicos Do Brazil LTDA by RM3,422,000 (2016: RM6,998,000) and RM40,128,000 (2016: Nil), respectively during the financial year.

5.2 Details of subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	Effective ownership and voting interest	
			2017 %	2016 %
Scomi Special Vehicles Sdn Bhd	Malaysia	Manufacture and fabrication of road transport equipment, material handling equipment and provision of related engineering support services	100	100
Scomi Transportation Systems Sdn Bhd	Malaysia	Investment holding	100	100
Scomi Transit Projects Sdn Bhd	Malaysia	Development, manufacture and supply of monorail transportation infrastructure systems equipment and services	100	100
Scomi Transit Projects Brazil Sdn Bhd	Malaysia	Development, manufacture and supply of monorail transportation infrastructure systems equipment and services	100	100
Scomi Transit Projects Brazil (Sao Paulo) Sdn Bhd	Malaysia	Development, manufacture and supply of monorail transportation infrastructure systems equipment and services	100	100

Notes to the Financial Statements *(cont'd)*

5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

5.2 Details of subsidiaries are as follows: (continued)

Name of entity	Country of incorporation	Principal activities	Effective ownership and voting interest	
			2017 %	2016 %
Urban Transit Private Limited *	India	Supply of transportation infrastructure systems equipment and services	100	100
Urban Transit Servicos Do Brazil LTDA#	Brazil	Supply of transportation infrastructure systems equipment and services	100	100
Scomi OMS Oilfield Services Ltd#	British Virgin Island	Dormant	100	100
Quark Fabricacao de Equipamentos Ferroviarios e Servicos de Engenharia Ltda ("Quark")# ⁽¹⁾⁽²⁾	Brazil	Dormant	80	37.75

⁽¹⁾ The registered capital of this entity is BRL1,000,000. The registered capital was not paid-up as at 31 March 2017.

⁽²⁾ On 14 June 2016, the Group and the Company acquired 422,500 quotas representing 42.25% of the quota capital of Quark. As a result, Quark became the subsidiary of the Group and the Company. As at the acquisition date, there were no identifiable asset and liability recognised on the basis that Quark has not carried on any business since its incorporation and does not have paid-up capital as at the end of the reporting period. There was no acquisition-related costs incurred by the Group and the Company. This acquisition was completed on 14 June 2016.

5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

5.2 Details of subsidiaries are as follows: (continued)

Name of entity	Country of incorporation	Principal activities	Effective ownership and voting interest	
			2017 %	2016 %
<i>Subsidiary of Scomi Special Vehicles Sdn Bhd</i>				
Scomi Trading Sdn Bhd	Malaysia	Marketing agent for road transport equipment and related products	100	100
<i>Subsidiaries of Scomi Transportation Systems Sdn Bhd</i>				
Scomi Rail Bhd	Malaysia	Design, manufacture and supply of monorail trains and related services	100	100
Scomi Coach Sdn Bhd	Malaysia	Manufacturing, fabrication and assembly of commercial coaches and truck vehicle bodies	100	100
<i>Subsidiary of Scomi Coach Sdn Bhd</i>				
Scomi Coach Marketing Sdn Bhd	Malaysia	Undertake the business of management and marketing agent to purchase, take on lease, hire or otherwise acquire, maintain, repair of coaches and vehicles bodies.	100	100

* Audited by other member firm of KPMG International.

Not required to be audited under local legislation.

Notes to the Financial Statements *(cont'd)*

5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

5.3 Impairment loss

The recoverable amounts of investment in subsidiaries are based on "value in use" calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the Directors covering a five-year period.

The projections over these periods were based on an approved business plan and reflect the expectation of usage, revenue growth, operating costs and margins based on past experience. The key assumptions used in the value in use calculations are as follows:

	Value in use basis	Pre-tax discount rate	Profit margin range	Terminal growth rate
2017				
Investment in Scomi Special Vehicles Sdn Bhd	Existing secured contracts and anticipated contracts over the next five years	6%	8% - 20%	Not applicable
Investment in Scomi Transit Projects Brazil (Sao Paulo) Sdn Bhd	Existing secured projects and anticipated projects over the remaining useful life of the current monorail technology	20%	3% - 27%	Not applicable
Investment in Scomi Transportation Systems Sdn Bhd	Existing secured projects and anticipated projects over the remaining useful life of the current monorail technology	16% - 20%	3% - 27%	Not applicable
2016				
Investment in Scomi Special Vehicles Sdn Bhd	Existing secured contracts and anticipated contracts over the next five years	6%	8% - 20%	Not applicable
Investment in Scomi Transit Projects Brazil (Sao Paulo) Sdn Bhd	Existing secured projects and anticipated projects over the remaining useful life of the current monorail technology	21%	3% - 27%	Not applicable
Investment in Scomi Transportation Systems Sdn Bhd	Existing secured projects and anticipated projects over the remaining useful life of the current monorail technology	16% - 21%	3% - 27%	Not applicable

A reasonable possible change in the assumptions used will not result in any change to the impairment conclusion.

5.4 Non-controlling interests in a subsidiary

The financial information of Quark that has non-controlling interest are not presented because Quark does not have asset and liability and has not carried on any business since its incorporation.

6. INVESTMENTS IN JOINT ARRANGEMENTS

6.1 Jointly controlled entity

The results of joint operation which is included in the Group's financial statements are as follows:

	Group	
	2017 RM'000	2016 RM'000
Revenue	4,696	2,568
Cost of sales	(10,819)	(11,159)
Gross loss	(6,123)	(8,591)
Receivables	14,450	9,754
Payables	35,467	24,648

Details of the joint operation are as follows:

Jointly controlled entity	Country of incorporation	Principal activities	Group's effective ownership and voting interest	
			2017 %	2016 %
Larsen & Toubro and Scomi Engineering Bhd (unincorporated consortium)	India	Design, civil construction, manufacture and supply of monorail trains, provision of related engineering support services and engineering works involving the design, construction, installation, testing and commissioning of electrical and mechanical systems in relation to the Mumbai monorail project	50	50

Notes to the Financial Statements *(cont'd)*

6. INVESTMENTS IN JOINT ARRANGEMENTS (CONTINUED)

6.2 Investment in joint venture

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Share of net assets of joint venture	-	-	-	-

Details of the joint venture are as follows:

Investment in joint venture	Country of incorporation	Principal activities
Quark Fabricacao de Equipamentos Ferroviarios e Servicos de Engenharia Ltda ("Quark")	Brazil	Dormant

In 2016, Quark was a joint venture of the Group and of the Company. The Company had effective ownership and voting interest of 37.75% in this joint venture. On 14 June 2016, Quark became the subsidiary of the Company (see Note 5.2).

7. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group						
Tax losses and capital allowance	72,264	72,264	-	-	72,264	72,264
Property, plant and equipment	-	-	(38,035)	(38,035)	(38,035)	(38,035)
Other items	-	-	(9,027)	(223)	(9,027)	(223)
Deferred tax assets/(liabilities)	72,264	72,264	(47,062)	(38,258)	25,202	34,006
Set off of tax	(37,664)	(38,258)	37,664	38,258	-	-
Net deferred tax assets	34,600	34,006	(9,398)	-	25,202	34,006
Company						
Tax losses and capital allowance	4,693	4,693	-	-	4,693	4,693

7. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Recognised deferred tax assets/(liabilities) (continued)

Movements in temporary differences during the year are as follows:

	At 1.4.2015 RM'000	Recognised in profit or loss (Note 19) RM'000	Effect of movements in exchange rates RM'000	At 31.3.2016/ 1.4.2016 RM'000	Recognised in profit or loss (Note 19) RM'000	Effect of movements in exchange rates RM'000	At 31.3.2017 RM'000
Group							
Tax losses and capital allowance	64,946	7,318	-	72,264	-	-	72,264
Property, plant and equipment	(38,035)	-	-	(38,035)	-	-	(38,035)
Other items	4,125	(4,313)	(35)	(223)	(7,868)	(936)	(9,027)
	31,036	3,005	(35)	34,006	(7,868)	(936)	25,202
Company							
Tax losses and capital allowance	4,693	-	-	4,693	-	-	4,693

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unabsorbed tax losses	97,976	91,527	18,910	36,185
Unabsorbed capital allowances	7,472	11,595	-	-
Reinvestment allowance	11,493	11,493	-	-
Other temporary differences	13,522	12,472	-	-
	130,463	127,087	18,910	36,185
Deferred tax assets not recognised at 24% (2016: 24%)	31,311	30,501	4,538	8,684

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profit will be available against which the Group and the Company can utilise the benefits there from.

Notes to the Financial Statements *(cont'd)*

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2017 RM'000	2016 RM'000
At fair value		
Quoted shares in Malaysia	170	104

9. INVENTORIES

	Group	
	2017 RM'000	2016 RM'000
At cost:		
Work in progress	2,359	2,570
Consumables	6,042	1,853
	8,401	4,423
At net realisable value:		
Raw materials	8,111	2,949
	16,512	7,372
Recognised in profit or loss:		
Inventories recognised in cost of sales	60,815	49,376
Reversal of inventories obsolescence	(487)	(168)

10. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade receivables	10.1	91,893	57,931	9,899	8,458
Less: Allowance for impairment		(8,859)	(8,794)	-	-
		83,034	49,137	9,899	8,458
Amounts due from customers on contract	10.1	634,253	532,205	248,765	181,607
Less: Allowance for impairment		(6,914)	(6,914)	-	-
	10.2	627,339	525,291	248,765	181,607
Amounts due from:					
- Subsidiaries		-	-	12,876	3,761
- Related corporations		5,551	11,631	379	472
	10.3	5,551	11,631	13,255	4,233
Other receivables		9,509	12,893	1,486	13,530
Deposits		5,340	9,482	3,530	72
Prepayments		28,286	17,316	-	-
Indirect tax recoverable	10.4	38,558	34,669	11,817	10,269
		81,693	74,360	16,833	23,871
		797,617	660,419	288,752	218,169

10.1 Included in trade receivables and amounts due from customers on contract is an amount of RM47.3 million (2016: RM21.0 million) and RM162.8 million (2016: RM198.9 million) respectively that are related to Project II, which are still outstanding as at the date of the financial statements. The Group has initiated legal proceedings against the contract customer as disclosed in Note 1(b)(ii), Note 1(d)(i)(b), Note 29(a) and Note 30.

Notes to the Financial Statements *(cont'd)*

10. RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

10.2 Amounts due from customers on contract

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Construction contract costs incurred to date and attributable profits	1,681,436	1,514,838	710,733	635,926
Less: Progress billings	(1,054,097)	(989,547)	(461,968)	(454,319)
Amounts due from contract customer	627,339	525,291	248,765	181,607
Retention receivable on contract, included in "trade receivables"	22,858	22,468	-	-
Advance received on contract, included under "other payables"	(51,630)	(27,824)	(51,630)	(27,824)

Amounts due from customers on contract have been collateralised for borrowings. In the event the Group defaults under the loan agreements, the banks have the right to receive the cash flows from these amounts. Without default, the Group will bill and collect these amounts and allocate new amounts as collateral.

10.3 Amounts due from subsidiaries, related corporations and ultimate holding company are unsecured, interest free and repayable on demand.

10.4 Indirect tax recoverable relates to the Mumbai Monorail project is disclosed in Note 1(d)(ii).

11. CASH AND BANK BALANCES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Short term deposits with licensed banks	31,941	25,904	1,000	-
Cash and bank balances	6,511	5,690	1,994	5,204
	38,452	31,594	2,994	5,204

Included in the deposits placed with licensed banks of the Group is RM31,750,000 (2016: RM25,217,000) pledged for bank facilities granted to Scomi Rail Bhd, Scomi Coach Sdn Bhd and Scomi Special Vehicles Sdn Bhd, subsidiaries of the Company, of which the maturity term exceeded 3 months.

12. CAPITAL AND RESERVES

12.1 Share capital

	Group and Company			
	2017		2016	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid:				
At the beginning and end of the financial year	342,080	342,080	342,080	342,080
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note 1)	-	46,605	-	-
	342,080	388,685	342,080	342,080

Note 2

Note 1: In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.

Note 2: Included in share capital is share premium amounting to RM46,605,000 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of section 74).

12.2 Treasury shares

The shareholders of the Company renewed their approval for the Company to repurchase its own shares through a special resolution passed in a general meeting held on 23 September 2014. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

During the current and previous financial year, there were no repurchase of the Company's shares.

The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act 2016. As treasury shares, the rights attached as to voting, dividends and participation in other distribution are suspended. None of the treasury shares repurchased has been sold as at 31 March 2017.

At the beginning and end of reporting period, 121,800 ordinary shares were held as treasury shares at a carrying value of RM103,333, and the number of outstanding shares in issue after setting off against treasury shares was 341,957,703 (2016: 341,957,703).

12.3 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Notes to the Financial Statements *(cont'd)*

12. CAPITAL AND RESERVES (CONTINUED)

12.4 Share option reserve

In 2016, the share option reserve comprised the cumulative value of employee services received for the issue of share options. All options granted has expired on 25 January 2016.

12.5 Merger relief reserve

The merger relief reserve is not distributable as cash dividends.

Merger relief reserve represents the excess of the fair value of shares over the nominal value of the shares issued as consideration in an acquisition of subsidiaries.

13. LOANS AND BORROWINGS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Secured				
Non-current				
Term loan	-	41,908	-	-
Revolving credit	36,259	25,635	-	-
Finance lease liabilities	37,900	3,943	40,304	-
	74,159	71,486	40,304	-
Secured				
Current				
Bank overdrafts	76,152	71,909	-	-
Term loans	161,099	113,423	-	-
Bankers' acceptances	-	111	-	-
Trust receipts	579	649	-	-
Revolving credits	208,627	208,944	-	3,500
Finance lease liabilities	5,025	3,295	1,283	-
	451,482	398,331	1,283	3,500
	525,641	469,817	41,587	3,500
Total loans and borrowings				
Bank overdrafts	76,152	71,909	-	-
Term loans	161,099	155,331	-	-
Bankers' acceptances	-	111	-	-
Trust receipts	579	649	-	-
Revolving credits	244,886	234,579	-	3,500
Finance lease liabilities	42,925	7,238	41,587	-
	525,641	469,817	41,587	3,500

13. LOANS AND BORROWINGS (CONTINUED)

13.1 Security

The loans and borrowings of the Group and the Company are secured as follows:

- (i) the term loan drawn down by a subsidiary is supported by a standby letter of credit from the financial institution. This standby letter of credit is secured by the facilities as mentioned below in (iii);
- (ii) the term loan drawn down by a subsidiary is supported by a corporate guarantee from the Company;
- (iii) bank overdrafts, term loans, bankers' acceptances and trust receipts drawn down by subsidiaries are secured by way of a negative pledge over the present and future, fixed and floating assets of the respective subsidiaries, assignment of contract proceeds and escrow account, all insurance policies taken, performance guarantee received and a corporate guarantee from the Company; and
- (iv) the revolving credits drawn down by subsidiaries are secured by way of assignment of contract proceeds and a pledge of a related corporation's shares to the banks.

The management continues to apprise and have discussions with the banks on the additional collaterals that were provided for the project's banking facilities.

13.2 Loan covenant

The Group have various financial covenants based on debt service coverage ratio, debt to equity ratio and total net worth, all of which were complied with as at 31 March 2017.

13.3 Finance lease liabilities

Finance lease liabilities are payable as follows:

	2017			2016		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Group						
Less than one year	7,648	2,623	5,025	3,882	587	3,295
Between one and five years	18,554	10,690	7,864	4,183	240	3,943
More than five years	39,247	9,211	30,036	-	-	-
	65,449	22,524	42,925	8,065	827	7,238

Notes to the Financial Statements *(cont'd)*

13. LOANS AND BORROWINGS (CONTINUED)

13.3 Finance lease liabilities (continued)

	2017			2016		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Company						
Less than one year	3,380	2,097	1,283	-	-	-
Between one and five years	18,149	9,291	8,858	-	-	-
More than five years	39,246	7,800	31,446	-	-	-
	60,775	19,188	41,587	-	-	-

The finance lease liabilities are secured against the respective assets acquired.

- 13.4 Included in the current portion of revolving credits and bank overdraft is an amount of RM213.2 million (2016: RM219.4 million) that is related to Project II, which is due for immediate repayment. The Group has yet to obtain further extension of the facilities from the lenders who have provided financing for this Project.

14. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-current liabilities					
Trade payables		-	100	-	-
Amount due to ultimate holding company	14.1	78,582	59,421	78,582	59,421
		78,582	59,521	78,582	59,421
Current liabilities					
Trade payables		92,356	91,061	35,469	24,679
Other payables		109,983	49,860	61,365	31,536
Amounts due to:					
- joint venture	14.2	682	593	-	-
- subsidiaries	14.2	-	-	169,966	130,713
- related corporations	14.2	13,888	11,925	12,815	10,867
		216,909	153,439	279,615	197,795
		295,491	212,960	358,197	257,216

14.1 The Group and the Company have received advances amounting to RM78,582,000 (2016: RM59,421,000) at the end of the reporting period from its ultimate holding company which is unsecured and is subject to interest at 9.19% (2016: Nil). The ultimate holding company has expressed its intention not to recall these amounts due within a period of 12 months from the date of approval of these financial statements.

14.2 Amounts due to subsidiaries, related corporations and a joint venture are unsecured, interest free and repayable on demand.

15. DEFERRED GOVERNMENT GRANT

	Group	
	2017 RM'000	2016 RM'000
Deferred government grant	269	629

The Group received a government grant of RM2,155,000 in 2008 to execute and develop new technology for a monorail bogie design and development program with improvement to the design of the current monorail bogie and development of a commercially ready prototype bogie.

Amortisation over the expected life of the related assets mirrors the pattern of consumption of the related intangible asset which is estimated to be 6 years (2016: 6 years).

Notes to the Financial Statements *(cont'd)*

16. REVENUE

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Construction contract income	142,323	125,658	55,589	20,740
Sale of goods	3,800	26,197	726	-
Sale of services	11,112	17,094	-	-
Leasing	5,456	5,523	-	-
Others	189	76	-	-
	162,880	174,548	56,315	20,740

17. COST OF SALES/SERVICES

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Raw materials, consumables and factory overheads used in construction contracts		71,448	70,599	58,083	31,940
Raw materials and consumables used for sale of goods		8,055	15,697	653	-
Raw materials and consumables used for sale of services		11,871	4,740	-	-
Staff cost		26,225	37,615	-	-
Finance cost incurred in construction contracts	18	34,353	29,516	-	-
Others		10,085	7,707	-	-
		162,037	165,874	58,736	31,940

18. FINANCE COSTS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest expense of financial liabilities that are not at fair value through profit or loss:				
- bank overdrafts	8,605	9,053	-	-
- term loans	11,676	10,304	-	-
- finance lease liabilities	1,149	616	713	-
- bankers' acceptances/trust receipts	52	751	-	-
- revolving credits	17,609	13,370	103	356
- other finance costs	9,891	2,276	7,805	-
	48,982	36,370	8,621	356
Recognised in profit or loss				
- recognised in finance costs	14,629	6,854	8,621	356
- recognised in cost of sales/services	34,353	29,516	-	-
	48,982	36,370	8,621	356

19. TAX EXPENSE/(CREDIT)

Recognised in profit or loss

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current tax expense/(credit)				
Malaysian - current year	327	391	-	-
- prior year	(84)	194	-	(12)
Overseas - current year	-	114	-	-
	243	699	-	(12)
Tax benefits arising from previously unrecognised:				
- Tax losses	-	(3,415)	-	-
- Temporary differences	-	(4,316)	-	-
	-	(7,731)	-	-
Total current tax recognised in profit or loss	243	(7,032)	-	(12)

Notes to the Financial Statements *(cont'd)*

19. TAX EXPENSE/(CREDIT) (CONTINUED)

Recognised in profit or loss (continued)

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax expense				
- Origination and reversal of temporary differences	7,868	(3,005)	-	-
Total tax expense/(credit)	8,111	(10,037)	-	(12)
(Loss)/Profit before tax	(11,645)	(11,880)	15,379	4,396
Income tax calculated using Malaysian tax rate of 24% (2016: 24%)	(2,795)	(2,851)	3,691	1,055
Non-deductible expenses	9,874	3,396	455	260
Recognition of previously unrecognised deferred tax assets	(989)	(6,420)	(4,146)	(1,315)
Reversal of previous unrecognised timing differences of an overseas subsidiary	-	(4,316)	-	-
Current year losses, capital allowances and other items which no deferred tax assets was recognised	1,799	100	-	-
Effect of different tax rates in foreign jurisdictions	306	(140)	-	-
(Over)/Under provided in prior years	(84)	194	-	(12)
	8,111	(10,037)	-	(12)

Income tax savings

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income tax savings arising from utilisation of prior year tax losses and capital allowance previously unrecognised	(989)	(3,415)	(4,146)	(1,315)

20. (LOSS)/PROFIT FOR THE YEAR

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<i>(Loss)/Profit for the year is arrived after charging:</i>				
Auditors remuneration:				
Audit fees:				
- KPMG Malaysia	435	435	125	125
- Overseas affiliates of KPMG in Malaysia	119	101	-	-
Non-audit fees:				
- KPMG Malaysia	11	5	11	5
- Local affiliates of KPMG in Malaysia	122	107	15	14
Amortisation of intangible assets	2,770	2,459	-	-
Receivables:				
- allowance of impairment	65	8,138	-	-
- write-off	-	4,376	-	3,092
Property, plant and equipment:				
- depreciation	6,517	6,629	950	148
- write-off	260	5	-	-
Rental expenses:				
- premises	1,779	1,523	284	479
- equipment	167	138	-	-
Staff costs (including Directors):				
- wages, salaries and bonuses	31,776	40,531	1,094	2,101
- defined contribution plan	2,303	3,491	183	361
- other employee benefits	3,453	5,504	177	525
Net foreign exchange loss:				
- realised	1,230	-	259	-
<i>and after crediting</i>				
Amortisation of government grant	(360)	(359)	-	-
Interest income of financial assets that are not at fair value through profit or loss	(1,443)	(2,134)	(288)	(258)
Other income – lease rental	-	-	(1,127)	-
Net foreign exchange gain:				
- realised	-	(580)	-	(165)
- unrealised	(27,637)	(12,014)	(30,158)	(23,590)
Reversal for inventories obsolescence	(487)	(168)	-	-

Notes to the Financial Statements *(cont'd)*

21. LOSS PER ORDINARY SHARE

Basic loss per ordinary share

The calculation of basic loss per ordinary share as at 31 March 2017 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares in issue, calculated as follows:

	Group	
	2017	2016
Loss attributable to owners of the Company (RM'000)	(19,756)	(1,843)
Weighted average number of ordinary shares in issue ('000)	341,958	341,958
Basic loss per share (sen)	(5.78)	(0.54)

22. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2017			2016		
	Before tax RM'000	Tax (expense) /benefit RM'000	Net of tax RM'000	Before tax RM'000	Tax (expense) /benefit RM'000	Net of tax RM'000
Group						
Items that are or may be reclassified subsequently to profit or loss						
Foreign currency translation differences for foreign operations						
- Gains/(Losses) arising during the year	10,434	-	10,434	(2,548)	-	(2,548)
Available-for-sale financial assets						
- Gains arising during the year	66	-	66	-	-	-
	10,500	-	10,500	(2,548)	-	(2,548)

22. OTHER COMPREHENSIVE INCOME/(EXPENSE) (CONTINUED)

	2017			2016		
	Before tax	Tax (expense) /benefit	Net of tax	Before tax	Tax (expense) /benefit	Net of tax
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company						
Items that are or may be reclassified subsequently to profit or loss						
Foreign currency translation differences for foreign operations						
- (Losses)/Gains arising during the year	(1,474)	-	(1,474)	142	-	142
	(1,474)	-	(1,474)	142	-	142

23. SEGMENT INFORMATION

Management has determined the operating segments based on reports reviewed by the Chief Operating Decision Maker ("CODM") which are used for allocating resources and assessing performance of the operating segments.

The Chief Operating Decision Maker considers the business from the industry perspective and the service rendered. The following reportable segments have been identified:

- (i) Rail Development, design, manufacture and supply of monorail transportation infrastructure systems equipment and services, and related engineering support services.
- (ii) Commercial Vehicles Manufacture, fabrication and assembly of commercial coaches, truck vehicle bodies and special purpose vehicles
("Coaches and Special Purpose Vehicles")

Unallocated costs represent corporate expenses. Segment assets consist of property, plant and equipment, intangible assets, inventories, receivables, deposit and prepayments and cash and cash equivalents. Segment liabilities comprise payables and exclude taxation and deferred tax liabilities.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Notes to the Financial Statements *(cont'd)*

23. SEGMENT INFORMATION (CONTINUED)

	Rail RM'000	Commercial vehicles RM'000	Group RM'000
2017			
Revenue			
External sales	104,435	58,445	162,880
Revenue from continuing operations	104,435	58,445	162,880
Results			
Segment results	43,554	(2,726)	40,828
Unallocated expenses			(4,934)
Interest income			1,443
Interest expense			(48,982)
Loss before tax			(11,645)
Tax expense			(8,111)
Loss for the year			(19,756)
Assets			
Segment assets	1,018,471	48,362	1,066,833
Unallocated corporate assets			39,219
Consolidated total assets			1,106,052
Liabilities			
Segment liabilities	(768,195)	(55,007)	(823,202)
Unallocated corporate liabilities			(26,833)
Consolidated total liabilities			(850,035)
Other information			
Depreciation	(4,346)	(2,171)	(6,517)
Amortisation	-	(2,770)	(2,770)
Net unrealised foreign exchange gain	27,297	340	27,637

23. SEGMENT INFORMATION (CONTINUED)

	Rail RM'000	Commercial vehicles RM'000	Group RM'000
2016			
Revenue			
External sales	125,372	49,176	174,548
Revenue from continuing operations	125,372	49,176	174,548
Results			
Segment results	33,016	(2,403)	30,613
Unallocated expenses			(8,257)
Interest income			2,134
Interest expense			(36,370)
Loss before tax			(11,880)
Tax credit			10,037
Loss for the year			(1,843)
Assets			
Segment assets	875,952	46,971	922,923
Unallocated corporate assets			38,083
Consolidated total assets			961,006
Liabilities			
Segment liabilities	(649,331)	(34,075)	(683,406)
Unallocated corporate liabilities			(12,327)
Consolidated total liabilities			(695,733)
Other information			
Depreciation	(5,609)	(1,020)	(6,629)
Amortisation	(1,224)	(1,235)	(2,459)
Net unrealised foreign exchange gain	11,837	177	12,014

Notes to the Financial Statements *(cont'd)*

23. SEGMENT INFORMATION (CONTINUED)

The Group operates in the following geographical areas:

Malaysia* Design, manufacture and supply of monorail, urban transportation (including buses, special purpose vehicles and coaches), rail solutions and related engineering support services.

India and Brazil Supply of transportation infrastructure systems, equipment and services.

* Company's home country.

	Total revenue		Total non- current assets	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Malaysia	51,593	109,868	248,129	256,867
India	68,444	40,972	533	515
Brazil	42,843	23,708	190	162
	162,880	174,548	248,852	257,544

With the exception of the countries disclosed above, no other individual country contributed more than 10% of consolidated revenue or assets.

Revenue is disclosed based on the location of the rail project or sale of goods or/and services. Total non-current assets are determined based on where the assets are located.

The following are the major customers with revenue equal or more than 10% of the Group's total revenue:

	Revenue		Segment
	2017 RM'000	2016 RM'000	
Customer A	68,444	40,972	Rail
Customer B [^]	-	60,440	Rail
Customer C	42,843	23,708	Rail
Customer D [^]	3,260	25,827	Commercial Vehicles
Customer E	41,947	-	Commercial Vehicles
	156,494	150,947	

Revenue for 4 (2016: 4) major customers constitutes 96% (2016: 86%) of total consolidated revenue.

[^] The revenue from Customer B and Customer D was less than 10% of the Group's total revenue for the financial year ended 31 March 2017. The revenue from these customers was more than 10% of the Group's total revenue for the financial year ended 31 March 2016.

24. FINANCIAL INSTRUMENTS

24.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables ("L&R");
- (b) Available-for-sale financial assets ("AFS"); and
- (c) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	L&R RM'000	AFS RM'000
2017			
Financial assets			
Group			
Available-for-sale financial assets	170	-	170
Trade and other receivables*	767,675	767,675	-
Cash and bank balances	38,452	38,452	-
	806,297	806,127	170
Company			
Trade and other receivables	288,752	288,752	-
Cash and bank balances	2,994	2,994	-
	291,746	291,746	-
		Carrying amount RM'000	FL RM'000
2017			
Financial liabilities			
Group			
Loans and borrowings		525,641	525,641
Trade and other payables**		295,462	295,462
		821,103	821,103
Company			
Loans and borrowings		41,587	41,587
Trade and other payables		358,197	358,197
		399,784	399,784

Notes to the Financial Statements *(cont'd)*

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R RM'000	AFS RM'000
2016			
Financial assets			
Group			
Available-for-sale financial assets	104	-	104
Trade and other receivable*	638,501	638,501	-
Cash and bank balances	31,594	31,594	-
	670,199	670,095	104
Company			
Trade and other receivables	218,169	218,169	-
Cash and bank balances	5,204	5,204	-
	223,373	223,373	-
		Carrying amount RM'000	FL RM'000
2016			
Financial liabilities			
Group			
Loans and borrowings		469,817	469,817
Trade and other payables**		212,946	212,946
		682,763	682,763
Company			
Loans and borrowings		3,500	3,500
Trade and other payables		257,216	257,216
		260,716	260,716

* excluded prepayments and Goods and Services Tax ("GST") receivable

** excluded GST payable

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.2 Net gains and losses arising from financial instruments

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net gains/(losses) on:				
Loans and receivables:				
- Allowance on receivables impairment	(65)	(8,138)	-	-
- Write-off of receivables	-	(4,376)	-	(3,092)
- Foreign exchange differences	26,570	20,260	29,899	23,755
- Finance income	1,443	2,134	288	258
	27,948	9,880	30,187	20,921
Financial liabilities measured at amortised cost:				
- Foreign exchange differences	(163)	(7,666)	-	-
- Finance costs	(48,982)	(36,370)	(8,621)	(356)
	(49,145)	(44,036)	(8,621)	(356)
	(21,197)	(34,156)	21,566	20,565

24.3 Financial risk management

The Group and Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

24.4 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 customers. The Company's exposure to credit risk arises principally from receivables from customers, loans and advances to subsidiaries and financial guarantees given to banks for credit facilities granted to subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally financial guarantees given by banks, shareholders or directors of customers are obtained, and credit evaluations are performed on customers requiring credit over a certain amount.

Notes to the Financial Statements *(cont'd)*

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Receivables (continued)

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.

Customer credit risk arises when services are rendered and sales are made on credit terms. Default by customers may lead to material loss but risks are mitigated by ensuring sales and services are made to customers with appropriate credit history. The Group monitors exposure to credit risk on an on-going basis. The Group considers the risk of its main customers defaulting in payments to be unlikely in view that its credit exposure is mainly to government bodies. At the reporting date, approximately 97% (2016: 97%) of the Group's trade receivables and amounts due from customer on contracts were due from one individual customer each in India and Brazil who are Government bodies and one individual customer in Malaysia who is a Government related agency.

Impairment losses

Trade receivables that were past due their contractual payment date but not impaired relate to a number of external parties where there are no expectation of default and relate to slow paying but long outstanding customers. The ageing of receivables (excluding intra-group balances, other receivables, deposits, prepayments and indirect tax recoverable) as at the end of the reporting period was:

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Not past due	661,841	-	661,841
Past due 1 – 90 days	40,778	-	40,778
Past due 90 – 180 days	5,324	-	5,324
Past due 180 – 365 days	2,393	-	2,393
Past due more than 365 days	15,810	(15,773)	37
	726,146	(15,773)	710,373
2016			
Not past due	564,006	(6,914)	557,092
Past due 1 – 90 days	14,213	-	14,213
Past due 90 – 180 days	191	-	191
Past due 180 – 365 days	1,991	-	1,991
Past due more than 365 days	9,735	(8,794)	941
	590,136	(15,708)	574,428

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

Company	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Not past due	258,664	-	258,664
2016			
Not past due	190,065	-	190,065

The individually impaired receivables mainly relates to trade receivables that were past due their contractual payment which are facing unexpectedly difficult economic situations and impaired amounts due from contract customers for a project which did not commence.

The movements in the allowance for impairment losses of receivables during the financial year were:

	Group	
	2017 RM'000	2016 RM'000
At 1 April	15,708	7,570
Impairment loss recognised	787	8,138
Impairment loss reversed	(722)	-
At 31 March	15,773	15,708

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Financial guarantees

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. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM482,716,000 (2016: RM459,079,000) 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.

Notes to the Financial Statements *(cont'd)*

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Inter-companies loans and advances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

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.

Loans and advances are only provided to subsidiaries which are wholly owned by the Company.

Impairment losses

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of current advances to the subsidiaries.

24.5 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.

The Group maintains a balance between continuity of funding and flexibility through the use of the stand-by credit facilities. The Group manages its debt maturity profile, operating cash flow and the availability of funding, including advance from its ultimate holding company as stated in Note 14 and obtaining extension from the lenders for funding facilities as disclosed in Note 1(b), so as to ensure that refinancing and funding needs are met.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.5 Liquidity risk (continued)

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:

Group	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2017							
<i>Non-derivative financial liabilities</i>							
Loans and borrowings	482,716	4.12 to 12.45	523,636	484,217	1,806	37,613	-
Finance lease liabilities	42,925	2.60 to 6.27	65,449	7,648	4,621	13,933	39,247
Trade and other payables	295,491	-	295,491	216,909	78,582	-	-
	821,132		884,576	708,774	85,009	51,546	39,247
2016							
<i>Non-derivative financial liabilities</i>							
Loans and borrowings	462,579	4.13 to 13.15	502,546	429,167	73,379	-	-
Finance lease liabilities	7,238	2.60 to 4.98	8,065	3,882	4,183	-	-
Trade and other payables	212,960	-	212,960	153,439	59,521	-	-
	682,777		723,571	586,488	137,083	-	-

Notes to the Financial Statements *(cont'd)*

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.5 Liquidity risk (continued)

Maturity analysis (continued)

The table below summarises the maturity profile of Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

Company	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2017							
<i>Non-derivative financial liabilities</i>							
Loans and borrowings	41,587	5.16	60,775	3,380	3,380	14,769	39,246
Trade and other payables	358,197	-	358,197	279,615	78,582	-	-
Financial guarantees	-	-	482,716	482,716	-	-	-
	399,784		901,688	765,711	81,962	14,769	39,246
2016							
<i>Non-derivative financial liabilities</i>							
Loans and borrowings	3,500	8.10 to 8.35	3,788	3,788	-	-	-
Trade and other payables	257,216	-	257,216	197,795	59,421	-	-
Financial guarantees	-	-	459,079	459,079	-	-	-
	260,716		720,083	660,662	59,421	-	-

24.6 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.

24.6.1 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 are primarily U.S. Dollar (USD), Indian Rupee (INR), Brazilian Real (BRL) and Euro (EUR).

Risk management objectives, policies and processes for managing the risk

The Group does not have a fixed policy to hedge its sales and purchases via forward contracts. However, the exposure to foreign currency risk is monitored from time-to-time by management.

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.6 Market risk (continued)

24.6.1 Currency risk (continued)

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

Group	Denominated in			
	USD RM'000	INR RM'000	BRL RM'000	EUR RM'000
2017				
Receivables, deposits and prepayments	-	358,012	180,839	-
Cash and bank balances	-	277	5,327	-
Trade payables	(50,643)	(9,212)	(52,488)	(14,235)
Loans and borrowings	(81,070)	(60,142)	-	-
	(131,713)	288,935	133,678	(14,235)
2016				
Receivables, deposits and prepayments	-	284,080	121,116	503
Cash and bank balances	-	781	5,203	-
Trade payables	(45,867)	(9,017)	(28,271)	(12,781)
Loans and borrowings	(67,543)	(51,721)	-	-
	(113,410)	224,123	98,048	(12,278)
Company	Denominated in			
	INR RM'000	BRL RM'000		
2017				
Receivables, deposits and prepayments		156,037	89,518	
Cash and bank balances		-	1,765	
Trade payables		-	(51,632)	
		156,037	39,651	
2016				
Receivables, deposits and prepayments		118,101	62,211	
Cash and bank balances		-	5,183	
Trade payables		-	(27,855)	
		118,101	39,539	

Notes to the Financial Statements *(cont'd)*

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.6 Market risk (continued)

24.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2016: 10%) strengthening of the Ringgit Malaysia against the following currencies at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Profit or loss Group		Profit or loss Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
USD	10,010	8,619	-	-
INR	(21,959)	(17,033)	(11,859)	(8,969)
BRL	(10,160)	(7,452)	(3,013)	(3,004)
EUR	1,082	933	-	-

A 10% (2016: 10%) weakening of Ringgit Malaysia 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.

24.6.2 Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group manages its interest rate exposure by obtaining financing at competitive rates, which is a mix of fixed and floating interest rates borrowing instruments. The Group reviews its debt portfolio, taking into account the investment holding period and nature of its assets.

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.6 Market risk (continued)

24.6.2 Interest rate risk (continued)

Exposure to interest rate risk

The interest 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 were:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<i>Floating rate instruments</i>				
Financial liabilities				
Bank overdrafts	76,152	71,909	-	-
Term loans	161,099	155,331	-	-
Bankers' acceptances	-	111	-	-
Trust receipts	579	649	-	-
Revolving credits	244,886	234,579	-	3,500
	482,716	462,579	-	3,500
<i>Fixed rate instruments</i>				
Financial liabilities				
Finance lease liabilities	42,925	7,238	41,587	-

Interest rate risk sensitivity analysis(a) *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 rates at the end of the reporting period would not affect profit or loss.

Notes to the Financial Statements *(cont'd)*

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.6 Market risk (continued)

24.6.2 Interest rate risk (continued)

Interest rate risk sensitivity analysis (continued)

(b) *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points ("bp") in interest 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, remained constant.

	Profit or loss		Profit or loss	
	100 bp increase 2017 RM'000	100 bp decrease 2017 RM'000	100 bp increase 2016 RM'000	100 bp decrease 2016 RM'000
Group				
Floating rate instruments	(3,669)	3,669	(3,516)	3,516

24.6.3 Other price risk

Equity price risk arises from the Group's investments in equity securities.

The Group is not significantly impacted by an increase or decrease in the fair value of these instruments.

24.7 Fair value information

The carrying amounts of cash and bank balances, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.7 Fair value information (continued)

The table below analyses 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.

Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2017										
Financial assets										
Available-for-sale financial asset	170	-	-	170	-	-	-	-	170	170
Financial liabilities										
Revolving credits	-	-	-	-	-	-	30,057	30,057	30,057	36,259
Finance lease liabilities	-	-	-	-	-	-	35,041	35,041	35,041	37,900
Amount due to ultimate holding company	-	-	-	-	-	-	73,400	73,400	73,400	78,582
2016										
Financial assets										
Available-for-sale financial assets	104	-	-	104	-	-	-	-	104	104
Financial liabilities										
Term loans	-	-	-	-	-	-	38,577	38,577	38,577	41,908
Revolving credits	-	-	-	-	-	-	23,597	23,597	23,597	25,635
Finance lease liabilities	-	-	-	-	-	-	3,690	3,690	3,690	3,943
Trade payables	-	-	-	-	-	-	94	94	94	100
Amount due to ultimate holding company	-	-	-	-	-	-	55,612	55,612	55,612	59,421

Notes to the Financial Statements *(cont'd)*

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.7 Fair value information (continued)

Company	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2017										
Financial liabilities										
Finance lease liabilities	-	-	-	-	-	-	37,646	37,646	37,646	40,304
Amount due to ultimate holding company	-	-	-	-	-	-	73,400	73,400	73,400	78,582
Financial guarantees	-	-	-	-	-	-	482,716	482,716	482,716	-
2016										
Financial liabilities										
Amount due to ultimate holding company	-	-	-	-	-	-	55,612	55,612	55,612	59,421
Financial guarantees	-	-	-	-	-	-	459,079	459,079	459,079	-

Level 3

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

Fair values of finance lease liabilities, loans and borrowings, payables and an amount due to an ultimate holding company have been generally derived using discounted cash flow approach.

For financial guarantees, the valuation technique and inputs used are based on the probability weighted discounted cash flows taking into account the likelihood of the guaranteed party defaulting and the estimated loss exposure if the party guaranteed were to default.

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 debt-to-equity ratios at 31 March 2017 and 31 March 2016 were as follows:

	Group	
	2017 RM'000	2016 RM'000
Total loans and borrowings (Note 13)	525,641	469,817
Less: Cash and bank balances (Note 11)	(38,452)	(31,594)
Net debt	487,189	438,223
Debt-to-equity ratios	1.90	1.65

There was no change in the Group's approach to capital management during the financial year. The Group is also required to comply with various financial covenants, details of which are set out in Note 13.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

26. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Less than one year	39	1,043	284	479
Later than 1 year and not later than 2 years	32	324	-	-
Later than 2 years and not later than 5 years	42	-	-	-
	113	1,367	284	479

The Group and the Company lease a number of factory facilities and equipment under operating leases. The leases typically run for a period of 2 to 7 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

Notes to the Financial Statements *(cont'd)*

26. OPERATING LEASES (CONTINUED)

Leases as lessor

The Group lease out their fleet of coaches under operating leases. The future minimum lease receivables under non-cancellable leases are as follows:

	Group	
	2017 RM'000	2016 RM'000
Less than one year	5,520	5,520
Later than 1 year and not later than 2 years	5,520	10,605
Later than 2 years and not later than 5 years	5,449	5,884
	16,489	22,009

The Group's operating leases are for a remaining term of 4 years (2016: 5 years).

27. CAPITAL AND OTHER COMMITMENTS

Capital expenditure commitments

	Group	
	2017 RM'000	2016 RM'000
Plant and equipment		
Contracted but not provided for	-	111

28. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties 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 either directly or indirectly. Key management personnel includes all the Directors of the Group, and certain members of senior management of the Group.

The Group has related party relationship with its holding company, fellow subsidiary, subsidiaries, joint operations and key management personnel.

28. RELATED PARTIES (CONTINUED)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Group and the Company are shown below. The balances related to the below transactions are shown in Note 10 and 14.

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Ultimate holding company				
Business development charges absorbed by ultimate holding company	-	6,587	-	-
Interest expense	7,791	-	7,791	-
Subsidiaries				
Contract costs charged	-	-	47,916	20,249
Lintas Travel & Tours Sdn. Bhd., a company connected to a Director				
Airline ticketing services	26	67	12	17
Zul Rafique & Partners, a firm connected to a Director				
Legal services	27	-	-	-
Key management personnel				
Non-executive Directors				
- fees	332	274	332	274
- other benefits	56	52	56	52
	388	326	388	326
<hr/>				
Short-term employee benefits	-	180		
Post-employment benefits: Defined contribution plan	-	31		
	-	211		

Certain executive officers are subject to mutual term of notice of 12 months. Upon resignation at the Group's request, they are entitled to terminate benefits up to 24 months gross salary.

Notes to the Financial Statements *(cont'd)*

29. SIGNIFICANT EVENTS DURING THE YEAR

During the financial year, the following events have occurred:

(a) Significant events in relation to the Project II:

On 10 June 2016, the Group announced that STP has received a notice from PMB ("the Notice") on 9 June 2016 which gave STP 14 days from the notice date to renew a performance bond connected with Project II, failing which the Project II contract would be terminated. Following receipt of the Notice, STP initiated legal proceedings against PMB by way of Originating Summons dated 20 June 2016.

On 21 June 2016, the High Court in Kuala Lumpur granted an interim order and injunction restraining PMB from terminating the contract based on the Notice or otherwise giving effect to the Notice pending the hearing and disposal of the Originating Summons and further orders of the High Court.

On 21 July 2016, STP issued a Notice of Arbitration against PMB to resolve the disputes through arbitration. On 22 July 2016, the Court made an order dismissing the Originating Summons filed by STP on 20 June 2016. However, the Court granted an injunction preventing termination of the contract by PMB until 26 July 2016. On 25 July 2016, STP filed a Notice of Appeal against the dismissal of the Originating Summons filed on 20 June 2016, which appeal was fixed for hearing on 16 August 2016 ("Appeal Hearing") and subsequently adjourned to various dates in 2016 and 2017 but not heard. The latest hearing date is now on 28 August 2017.

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 Project II until the Appeal Hearing that was adjourned to 12 July 2017 for which hearing was postponed to 28 August 2017. This interim injunction lapsed on 12 July 2017.

On 3 March 2017, STP and PMB entered into the Third Supplemental Contract ("TSC") to the Principal Contract dated 3 June 2011 as supplemented by the First Supplemental Agreement dated 16 April 2014 and the Second Supplemental Agreement dated 15 April 2015 for the completion of this project (collectively, the "Contracts"). This TSC comes with Conditions Precedent and will lapse and become null and void should the Conditions Precedent not be fulfilled before 3 May 2017. Under the TSC, both parties have agreed to a joint appointment of an independent consultant to determine STP's claims and PMB's claims under the Contracts arising prior to 23 June 2016. See Note 30 for events subsequent to year end.

(b) Significant events in relation to the Project III:

As disclosed in Note 1(b)(iii), on 30 May 2016, the Company and the other Consortium members have executed a Term of Agreement ("TOA") with Metro Company of Sao Paulo to regulate the Consortium Member's altered responsibilities. Under the TOA, the Group's scope of work has been varied to include increased scopes. On 25 July 2016, Metro Company of Sao Paulo issued a letter of consent on the additional scope of works to the Group and therefore it has assumed full responsibilities and obligation for Project III. The value of this additional scope of works is BRL371 million (equivalent to about RM503 million). As a result, the Group's share of the total value of the Contract is BRL503 million (equivalent to about RM729 million).

30. SUBSEQUENT EVENTS

Subsequent to the financial year, the following events have occurred in relation to Project II:

- a) Following the signing of TSC, on 3 May 2017, PMB served a letter to STP, stating that the last Condition Precedent ("Last CP") under the TSC has not been fulfilled within the Conditions Precedent period and therefore the TSC has automatically lapsed and become null and void. Subsequent to the letter, STP, PMB and STP's lenders had continued discussions on the status of satisfaction of the Last CP. On 16 May 2017, STP officially provided an additional document with regard to the issue.
- b) On 26 May 2017, the Court further adjourned the Appeal Hearing to 12 July 2017 and fixed the matter for final case management on the same day should the matter not be resolved by then. The order of the Court restraining PMB from appointing another contractor for the Project II is further extended until 12 July 2017. On 12 July 2017, the interim injunction lapsed and the Appeal Hearing was postponed to 28 August 2017.
- c) On 14 June 2017, STP issued a Notice of Dispute to PMB to refer the Dispute to a Dispute Adjudication Board ("DAB") for resolution in accordance with the contract provisions. Both STP and PMB agreed to dispense reference of the alleged nullification dispute to the DAB and to refer the Dispute directly to arbitration.
- d) On 28 June 2017, PMB communicated in writing to STP stating that it was maintaining its position that the last condition precedent of the TSC had not been fulfilled within the Conditions Precedent Period and that therefore the TSC has automatically lapsed and become null and void.
- e) On 3 July 2017, STP filed an action in the High Court against PMB with respect to the alleged nullification by PMB of the TSC dated 3 March 2017. In the action, STP is seeking for interim relief pursuant to Section 11 of the Arbitration Act 2005, claiming that PMB by itself or its directors, managers, officers, employees, servants, agents or otherwise restrained and for an injunction to be granted restraining PMB from appointing a third party contractor or any party whatsoever to complete the remaining and/or any works under the TSC pending resolution via arbitration between STP and PMB pursuant to Clause 20 of the Principal Contract in respect of the validity of the TSC, for costs and further or other relief which the Court deems fit and proper. This action is fixed for hearing on 31 July 2017.
- f) On 13 July 2017, STP issued a Notice of Arbitration against PMB to resolve the Dispute between STP and PMB by way of arbitration.

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 and of the Company as at 31 March, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Realised and unrealised losses of the Company and its subsidiaries:				
- realised	(278,574)	(250,122)	(104,416)	(91,141)
- unrealised	60,492	39,092	45,493	16,839
	(218,082)	(211,030)	(58,923)	(74,302)
Less: Consolidation adjustments	65,304	78,008	-	-
Total accumulated losses	(152,778)	(133,022)	(58,923)	(74,302)

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 251(2) of the
Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 63 to 145 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 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 March 2017 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 31 on page 146 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:

Datuk Zainun Aishah binti Ahmad

Director

Shah Hakim @ Shahzanim bin Zain

Director

Petaling Jaya

Date: 24 July 2017

Statutory Declaration

pursuant to Section 251(1)(b) of the
Companies Act, 2016

I, **L. Joseph Nixon A/L S. Lourdesamy**, the officer primarily responsible for the financial management of Scomi Engineering Bhd, do solemnly and sincerely declare that the financial statements set out on pages 63 to 146 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 Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed L. Joseph Nixon A/L S. Lourdesamy, I/C No: 700225-10-5493, at Petaling Jaya in the State of Selangor Darul Ehsan on 24 July 2017.

L. Joseph Nixon A/L S. Lourdesamy

Before me:

Commission for Oaths

Independent Auditors' Report

to the Members of Scomi Engineering Bhd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scomi Engineering Bhd, which comprise the statements of financial position as at 31 March 2017 of the Group and of the Company, and the statements of profit or loss and other 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 63 to 145.

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 March 2017, and of their financial performance and their 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 2016 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 auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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.

Material Uncertainty Related to Going Concern

We draw your attention to the dispute and legal proceedings between the Group and one of its project customers as disclosed in Note 1(b) (ii) of the financial statements. These events and conditions, along with other matters disclosed in the said Note 1(b)(ii) indicate that material uncertainties exist that may cast significant doubt on the ability of the Group and of the Company to continue as going concerns. Our opinion is not modified in respect of these matters.

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 year. 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independent Auditors' Report

to the Members of Scomi Engineering Bhd

(cont'd)

Recognition of contract revenue, related receivables and liabilities

Refer to Note 2(n)(iii) – Significant accounting policy: Construction contracts and Note 16 - Revenue.

The construction industry is characterised by contract risk with significant judgements involved in the assessment of both current and future contract financial performance. Profit on construction and long-term services contracts are recognised in accordance with MFRS 111 based on the stage of completion of contract activity. This is assessed by reference to the proportion of contract costs incurred for the work performed at the reporting date relative to the estimated total costs of the contract at completion.

The key risk for our audit is the appropriateness of recognition of profit on contracts because of the significant judgement involved in preparing suitable estimates of the forecast costs and revenue on contracts. An estimation error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and the current year.

As the status of contracts are updated on a regular basis, the Directors are required to exercise significant judgement in the assessment of contract variations which would impact the forecast profits on contracts. These judgements include the expected recovery of costs arising from variations to the contracts requested by the customers, claims made against the customers for delays or other additional costs for which the customers are liable, liquidated damages, the completeness and accuracy of forecast costs to complete and the ability to deliver contracts within the forecasted timelines.

The contracts finalisation may result in a wide range of outcome. The final outcome on each contract can be individually material as it is dependent on the level of judgement exercised by the Directors. In addition, changes in these judgements, and the related estimates, as the contracts progresses, could result in material adjustments to revenues and margins, and related receivables and liabilities which can be both positive or negative.

We selected all the contracts secured by the Group within its rail segment for detailed testing and our audit procedures included:

- o Evaluation of the Group's contract revenue accounting process. We tested a sample of the controls in this process including the yearly preparation of project cost re-estimation and progress claim certifications and approvals;
- o For these selected contracts customers:
 - o We read the contracts terms and conditions to assess whether the critical and unique characteristics of each contract were reflected in the Directors' estimate;
 - o We assessed the cost to complete estimates by (1) understanding the activities required to complete the project, (2) analysing the costs of those activities compared to the independent expert's report, and (3) using our knowledge of the contract characteristics to challenge the completeness of costs and activities;
 - o We challenged the financial assessment of the contract progress and percentage of completion adopted through independent discussion with finance, commercial and operational management. We compared the outcome of our discussions with the underlying records;
 - o We tested contract variations, claims and liquidated damages by comparing their value to underlying records and using our knowledge of the expected level of issues arising. The underlying records included legal or expert's reports commissioned by the Group in regard to contentious matters/cases;
 - o We assessed the legal and independent experts' reports received on contentious matters such as claims on liquidated damages and extensions of time. Where we sought to rely on the work of that expert, we evaluated the professional competence and objectivity of that expert;
 - o We assessed the ability to deliver contracts within the budgeted timelines and any exposure to liquidated damages for late delivery of contracts works; and
 - o We assessed post-balance sheet performance to support year end judgements.

Recognition of contract revenue, related receivables and liabilities (continued)

- o We assessed whether the amounts recognised in the financial statements of the Group and of the Company were in line with the Group's accounting policy and relevant accounting standards, and whether they represented a balanced view of the risks and opportunities in respect of the forecast profit to completion;
- o We performed site visits to physically inspect the stage of completion of certain projects and identify areas of complexity through observation and discussion with site personnel;
- o We inspected the signed contracts for key clauses to identify relevant contractual mechanisms such as the sharing of cost overruns with the customer, contractual damages and success fees and assess whether these key clauses have been appropriately reflected in the amounts included in the forecasts;
- o We assessed the recoverability of related receivables, including testing of post year end cash receipts, and adequacy of any provisions through completion of the above procedures;
- o We inspected correspondences with customers or other information which may indicate the non-recoverability of the related receivables; and
- o We considered the adequacy of the disclosures in the financial statements of the Group and of the Company in respect of the judgements taken with respect to profit recognition and the key risks relating to these amounts and to any significant contracts.

Goodwill and other intangible assets

Refer to Note 2(f)(i) and 2(f)(iii) – Significant accounting policy: Goodwill and other intangible assets and Note 4 – Intangible assets.

The Group has significant intangible assets which comprise rail operations goodwill, capitalised monorail and bus development costs, mass rapid transit and propulsion development costs work-in-progress. On an annual basis, Directors are required to perform an impairment assessment for goodwill, and to assess for indicators of impairments in respect of other intangible assets. Where indicators of impairment are identified, a full impairment assessment is performed. These assessments involve significant judgement in the application of valuations models and assumptions. As a consequence, there is a risk that goodwill and other intangible assets may be impaired.

In this area, our audit procedures included:

- o We assessed the Group's impairment model and discounted cash flow projections prepared by management and approved by Directors which support their goodwill impairment review;
- o We challenged the reasonableness of discounted cash flow projections and the evidence supporting the underlying assumptions used by the Group, by comparing to approved budgets, considering budget accuracy, cost inflation and discount rate;
- o We used our valuation experts to support us on this analysis, specifically on the discount rates used, with reference to our understanding on the business, comparisons to other similar companies and broader market considerations;
- o We assessed the sensitivity analysis on the key inputs to impairment models in order to understand the impact of reasonably possible change in key assumptions on the overall carrying value;
- o We reassessed the management's assessment of the existence of impairment indicator for other intangibles and assessed the appropriateness of the amortisation to understand whether the amortisation period remains appropriate; and
- o We considered the adequacy of the disclosures in the financial statements of the Group in relation to the key assumptions and in respect of the sensitivity of the outcome of the impairment assessment to reasonable changes in those key assumptions.

Independent Auditors' Report

to the Members of Scomi Engineering Bhd

(cont'd)

Recognition of Deferred Tax Assets

Refer to Note 2(p) – Significant accounting policy: Income tax and Note 7 – Deferred tax assets/(liabilities).

The Group has recognised deferred tax assets which arise from unabsorbed tax losses, unabsorbed capital allowances, and other temporary differences. The Group also has unrecognised deferred tax assets in respect of unabsorbed tax losses, unabsorbed capital allowances, reinvestment allowances and other timing differences. The recognition or non-recognition of deferred tax assets in respect of unabsorbed tax losses, unabsorbed capital allowances, reinvestment allowances and other timing differences is based on judgement in respect of the timing and quantum of expected future taxable income and the ability of the Group and of the Company to offset any of their accumulated losses against these expected taxable income.

In this area, our audit procedures included:

- o We considered, amongst other things, historical levels of the taxable income, the historical accuracy of forecasts, the growth forecasts used by the Group and the Company, and the period over which those forecasts are applied. This included critically assessing the assumptions and judgements made by the Directors in those forecasts, by using our knowledge of the Group and of the Company and the industry in which they operate, and by comparing growth assumptions to externally derived data.
- o We also assessed the adequacy of the disclosures in the financial statements of the Group and of the Company in respect of the basis of the deferred tax balance and the level of estimation involved.

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 and, 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, International Financial Reporting Standards and the requirements of the Companies Act 2016 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 the Company 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.

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 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 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.

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 year 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.

Independent Auditors' Report

to the Members of Scomi Engineering Bhd
(cont'd)

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 5 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 Matter

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

Petaling Jaya

Date: 24 July 2017

Siew Chin Kiang @ Seow Chin Kiang
Approval Number: 02012/11/2018 J
Chartered Accountant

Analysis of Shareholdings as at 30 June 2017

Share capital : RM342,079,503.00, comprising 342,079,503 ordinary shares. This includes 121,800 ordinary shares purchased by the Company under share buy-back scheme and retained as treasury shares ("Treasury Shares")

Types of shares : Ordinary shares

Voting rights : One vote per ordinary share

No. of shareholders : 3,011

Distribution of Shareholding as at 30 June 2017

Size of Shareholding	Shareholder		Shareholding	
	No. of Shareholders	%	No. of Shares Held	%*
Less than 100	89	2.96	1,987	0.00
100 to 1,000	602	19.99	383,669	0.11
1,001 to 10,000	1,400	46.50	7,137,079	2.09
10,001 to 100,000	797	26.47	25,768,931	7.54
100,001 to less than 5% of issued shares	122	4.05	61,315,979	17.93
5% and above of issued shares	1	0.03	247,350,058	72.33
Total	3,011	100.00	341,957,703	100.00

Note :

* The percentage shareholdings have been computed net of the Company's Treasury Shares.

List of Top Thirty (30) Largest Shareholders as at 30 June 2017

No	Name of Shareholder	No. of Shares Held	%*
1.	Scomi Group Bhd	247,350,058	72.33
2.	Bara Aktif Sdn Bhd	8,949,000	2.62
3.	Eagletron Venture Corp.	7,830,000	2.29
4.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Nik Awang @ Wan Azmi Bin Wan Hamzah (E-KPG/JRL)	5,500,000	1.61
5.	Maybank Nominees (Asing) Sdn Bhd Pledged Securities Account for San Tuan Sam	4,348,000	1.27
6.	Koo Eu Jim	1,358,000	0.40
7.	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chor Sek Choon	1,000,000	0.29
8.	Oh Kim Sun	980,600	0.29
9.	Chan Thye Thian	901,000	0.26

Analysis of Shareholdings

as at 30 June 2017 (cont'd)

List of Top Thirty (30) Largest Shareholders as at 30 June 2017

No	Name of Shareholder	No. of Shares Held	%*
10.	Ooi Bin Keong	811,900	0.24
11.	Lim Hock Lai	770,300	0.23
12.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tee Kim Hew (E-KLG/BTG)	732,000	0.21
13.	Teh Kai Sing	697,000	0.20
14.	Ler Long Exh	659,700	0.19
15.	Wong Chock Faa	641,839	0.19
16.	Foong Seng	620,662	0.18
17.	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Sak Kam Wah (8082357)	610,000	0.18
18.	Mohammed Abdul Aziz S Alajaji	570,000	0.17
19.	Lim Keng Chuan	558,800	0.16
20.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Booie Kee (E-BBB)	535,000	0.16
21.	Public Invest Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chong Kwong Chin (M)	533,244	0.16
22.	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Oh Kim Sun	520,000	0.15
23.	See Tian Chwan	507,000	0.15
24.	Ee Bee Pheng	500,000	0.15
25.	Shah Hakim @ Shahzanim Bin Zain	500,000	0.15
26.	Mansor Bin Tahir	484,900	0.14
27.	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Haris Onn Bin Hussein (MM0614)	483,400	0.14
28.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Saw Gee Bang	429,900	0.13
29.	Low Chu Mooi	395,000	0.12
30.	Tan Kok Peng	383,000	0.11

Note :

* The percentage shareholdings have been computed net of the Company's Treasury Shares.

Shareholding of Substantial Shareholder as at 30 June 2017

Name of Shareholder	Direct		Indirect	
	No. of Shares Held	%*	No. of Shares Held	%*
Scomi Group Bhd	247,350,058	72.33	-	-

Note :

* The percentage shareholdings have been computed net of the Company's Treasury Shares.

Shareholding of Directors and Chief Executive Officer (“CEO”) as at 30 June 2017

Name of Director and CEO	Direct		Indirect	
	No. of Shares Held	% *	No. of Shares Held	% *
Datuk Zainun Aishah Binti Ahmad	250,000	0.07	-	-
Dato’ Ikmal Hijaz Bin Hashim	-	-	-	-
Tunku Alizan Bin Raja Muhammad Alias	-	-	-	-
Liew Willip	-	-	-	-
Kanesan A/L Veluppillai	-	-	-	-
Cyrus Eruch Daruwalla	-	-	-	-
Shah Hakim @ Shahzanim Bin Zain	623,000 ⁽¹⁾	0.18	537,500 ⁽²⁾	0.16
Rohaida Binti Ali Badaruddin	-	-	-	-

Ultimate Holding Company - Scomi Group Bhd

Name of Director and CEO	Direct		Indirect	
	No. of Shares Held	%	No. of Shares Held	%
Shah Hakim @ Shahzanim Bin Zain	1,950,100 ⁽³⁾	0.10	175,917,025 ⁽⁴⁾	9.24
Rohaida Binti Ali Badaruddin	451,250	0.02	-	-

Related Company - Scomi Energy Services Bhd

Name of Director and CEO	Direct		Indirect	
	No. of Shares Held	%	No. of Shares Held	%
Shah Hakim @ Shahzanim Bin Zain	2,108,000 ⁽⁵⁾	0.09	56,900 ⁽²⁾	#
Rohaida Binti Ali Badaruddin	450,000	0.02	-	-

Notes:

* The percentage shareholdings have been computed net of the Company’s Treasury Shares.

Negligible.

- (1) 123,000 shares held through Maybank Securities Nominees (Tempatan) Sdn Bhd pledged Securities Account for Shah Hakim @ Shahzanim Bin Zain (Margin).
- (2) Deemed interested by virtue of Section 8(4) of the Companies Act, 2016 through his shareholding in Rentak Rimbun Sdn Bhd.
- (3) 1,421,000 shares held through Maybank Securities Nominees (Tempatan) Sdn Bhd pledged Securities Account for Shah Hakim @ Shahzanim Bin Zain (Margin) and Maybank Nominees (Tempatan) Sdn Bhd pledged Securities Account for Shah Hakim @ Shahzanim Bin Zain.
- (4) Deemed interested by virtue of Section 8(4) of the Companies Act, 2016 through his shareholding in Kaspadu Sdn Bhd and Rentak Rimbun Sdn Bhd.
- (5) Held through Maybank Securities Nominees (Tempatan) Sdn Bhd pledged Securities Account for Shah Hakim @ Shahzanim Bin Zain (Margin).

List Of Property

as at 30 June 2017

Registered Owner	Description / location address	Existing use	Tenure of land: freehold or leasehold (years)/date of acquisition	Land area/ Built-up area	Approximate age of building	Audited net book value as at 31.03.2017 RM '000
Scomi Engineering Bhd	Land and Building EMR 2751 Lot 795 and EMR 2616 Lot 796, Mukim Serendah, Daerah Hulu Selangor, Malaysia.	Office and factory	Leasehold 02.11.2016 (15 years)	Land area 61,714 sq metres Built-up area 26,556 sq metres	Building 1 7.75 years Building 2 20.25 years	Land RM7,766 Building 1&2 RM29,640

Corporate Directory

CORPORATE

Scomi Engineering Bhd

Level 17, 1 First Avenue
Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan
Malaysia
Tel: +603 7717 3000
Fax: +603 7728 5258

Operating Locations

Brazil (São Paulo)

Urban Transit Servicos do Brasil Ltda
Berrini Trade Centre
Av. Engenheiro Luis Carlos Berrini, 1700
11° Andar, Brooklin 04571-000
São Paulo, Brazil

India (Mumbai)

Urban Transit Pvt Ltd
Unit No.305, Western Edge II
3rd Floor, Near Western Express Highway
Borivali(E), Mumbai-400 066
Maharashtra,
India

Malaysia (Selangor)

Scomi Coach Sdn Bhd
Scomi Coach Marketing Sdn Bhd
Scomi Rail Bhd
Scomi Special Vehicles Sdn Bhd
Lot 795, Jalan Monorel
Sungai Choh
48000 Rawang
Selangor Darul Ehsan
Malaysia

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 33rd Annual General Meeting of SCOMI ENGINEERING BHD (the “Company”) will be held at Dewan Berjaya, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur, Malaysia on Tuesday, 22 August 2017 at 10:00 am to transact the following business:

AS ORDINARY BUSINESS:

To consider and, if thought fit, to pass the following as Ordinary Resolutions:

1. To receive the Audited Financial Statements for the financial year ended 31 March 2017 and the Reports of the Directors and Auditors thereon.
2. To re-elect Mr Shah Hakim @ Shahzanim Bin Zain who retires by rotation in accordance with Article 80 of the Articles of Association of the Company and who being eligible, offers himself for re-election. (Resolution 1)
3. To approve the payment of Directors’ fees amounting to RM332,131.50 for Non-Executive Directors in respect of the financial year ended 31 March 2017. (Resolution 2)
4. To approve the payment of Directors’ remuneration (excluding Directors’ fees) to Non-Executive Directors up to an amount of RM150,000.00, from 31 January 2017 until the next Annual General Meeting of the Company. (Resolution 3)
5. To re-appoint KPMG PLT as Auditors of the Company for the financial year ending 31 March 2018 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:

6. **Authority to Issue and Allot Shares pursuant to Section 75 of the Companies Act, 2016** (Resolution 5)
“THAT, subject to the Companies Act, 2016, the Articles of Association of the Company and the approvals of the relevant governmental and/or regulatory authorities, where necessary, the Directors be and are hereby authorised, pursuant to Section 75 of the Companies Act, 2016, to issue and allot shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares to be issued and allotted pursuant to this resolution does not exceed ten percent (10%) of the issued and paid-up share capital of the Company for the time being **AND THAT** such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.”

7. **Retention of Independent Director** (Resolution 6)
 “THAT Datuk Zainun Aishah Binti Ahmad be and is hereby retained as an Independent Director of the Company until the conclusion of the next Annual General Meeting.”
8. To transact any other business of the Company for which due notice shall have been given in accordance with the Companies Act, 2016 and the Articles of Association of the Company.

By Order of the Board

ONG WEI LENG (MAICSA 7053539)

Company Secretary

Petaling Jaya

Date: 31 July 2017

Notes:

1. A member of the Company who is entitled to attend and vote at any general meeting of the Company is entitled to appoint any person as his/her proxy or proxies (but not more than two) to attend and vote in his/her behalf. There shall be no restriction as to the qualification of the proxy.
2. Where a member of the Company who is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, holds ordinary shares in the Company for multiple beneficial owners in one 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.
3. Where a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
4. The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or his/her attorney duly authorised in writing and, in the case of a corporation, either under seal or under the hand of an officer or attorney duly authorised. If no name is inserted in the space for the name of your proxy, the Chairman of the meeting will act as your proxy.
5. The instrument appointing a proxy must be completed and deposited at the office of the Share Registrar of the Company, Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time for holding the 33rd Annual General Meeting (“33rd AGM”) or at any adjournment thereof, and in case of a poll, not less than twenty-four (24) hours before the time appointed for the taking of the poll, and in default, the instrument of proxy shall not be treated as valid.
6. The lodging of a completed Form of Proxy to the Share Registrar of the Company will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so. Should you subsequently decide to attend and vote in person at the meeting, you are requested to rescind your earlier appointment of proxy(ies), and notify the Share Registrar of the Company as soon as practicable.
7. For the purpose of determining a member who shall be entitled to attend this 33rd AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 57 of the Company’s Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 15 August 2017. Only a depositor whose name appears on the General Meeting Record of Depositors as at 15 August 2017 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his or its behalf.

Notice of Annual General Meeting *(cont'd)*

Audited Financial Statements for the financial year ended 31 March 2017 and the Reports of the Directors and Auditors thereon

8. The audited financial statements under Agenda 1 are laid before the shareholders for discussion only as under the provisions of Section 340(1)(a) of the Companies Act, 2016 (the "Act"), the audited financial statements do not require a formal approval of the shareholders and hence, the matter is not put forward for voting.

Explanatory notes on Special Businesses

9. Ordinary Resolution 5 - Proposed renewal of the authority for Directors to issue and allot shares

The ordinary resolution 5 above is proposed for the purpose of granting a renewed general mandate for issuance and allotment of shares by the Company under Section 75 of the Act, and if passed, will give the Directors the authority, from the date of the 33rd AGM, to issue and allot shares in the Company at any time up to an aggregate amount not exceeding ten percent (10%) of the issued and paid-up share capital of the Company for such purposes as the Directors may deem fit and in the interest of the Company ("Share Mandate").

As at the date of this notice, the Company has not issued any new shares under the Share Mandate which was approved at the 32nd AGM held on 17 August 2016 and which will lapse at the conclusion of the 33rd AGM.

This Share Mandate, unless revoked or varied at a General Meeting, will expire at the conclusion of the next AGM of the Company. With this Share Mandate, the Company will have the flexibility to undertake any possible fund raising activities, including but not limited to further placing of shares, for any purpose, including funding future investment project(s), working capital and/or acquisition(s) without convening a General Meeting, which may delay the capital raising initiatives and incur relevant costs in organising the required General Meeting.

10. Ordinary Resolution 6 - Retention of Independent Director

Datuk Zainun Aishah Binti Ahmad has served the Company as an Independent Non-Executive Director ("NED") since 15 December 2005 for a cumulative period of over nine (9) years and has served as the Chairman of the Board for the last eleven (11) years. Her profile is as set out in the Profile of Directors section of the Annual Report 2017.

In line with the recommendation 3.1 of the Malaysian Code on Corporate Governance 2012, the Board, through the Nomination and Remuneration Committee, has assessed the independence of Datuk Zainun Aishah Binti Ahmad. The Board had at its meeting on 23 May 2017 recommended that Datuk Zainun Aishah Binti Ahmad continue to act as an Independent NED of the Company based on the following justifications:

- (a) that she continues to fulfil the criteria set out in the definition of "Independent Director" in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
- (b) that her vast experience and expertise enable the Board to discharge its duties effectively and in a competent manner;
- (c) that although she has served the Company as Independent Director for a cumulative term of more than nine (9) years, she has at all times acted in the best interest of the Company, providing independent views to the deliberations and decision making of the Board and Board Committees and fully understands and provide critical oversight over the Company's objectives and strategies as well as the business operations of the Company and the Group;
- (d) she has proven to be a reliable Independent Director with her professionalism, aptitude and business outlook and perspective, devoted sufficient time and attention to her professional obligations for informed and balance decision-making and has also exercised due care and diligence during her tenure in the best interest of the Company and the shareholders; and
- (e) she has provided confirmation in writing that she is independent of the Management, the Board and major shareholders and is free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of the Company and the Group.

The recommendation to retain Datuk Zainun Aishah Binti Ahmad as an Independent NED of the Company is also based on her exemplary leadership and dedication to her responsibilities as the Chairman of the Board and her in-depth understanding and knowledge of the Company's business as well as the strategies and direction of the Company. Her wealth of knowledge and expertise on corporate matters of different industries and environments and her experience in various companies and capacities suits the Company's required mix of skills and Board diversity. There is no doubt that her leadership has ensured an effective check and balance in the proceedings of the Board and the Board Committees, whilst encouraging active participations from all members of the Board. She is practical in her analysis and assessment and provides practical guidance to the Management team in strategy matters. She is also vocal in her outlook and views and has provided the Board with a strong and principled voice. Her unwavering support of the Company's initiatives in implementing different strategies in moving the Company forward and strengthening the Company's credibility and reputation as the leader in the transportation industry proved to be invaluable to the Company especially in times when the general market outlook has been quite uncertain.

Abstention from voting

11. The interested Directors of the Company who are shareholders of the Company will abstain from voting on the relevant resolutions in respect of their re-election as the Director of the Company or retention as an Independent Director of the Company at the 33rd AGM.
12. All the NEDs of the Company who are shareholders of the Company will abstain from voting on Ordinary Resolutions 2 and 3 concerning remuneration to the NEDs at the 33rd AGM.

Personal data privacy

13. By lodging a completed Form of Proxy to the Share Registrar of the Company for appointing a proxy(ies) and/or representative(s) to attend and vote in person at the 33rd AGM and any adjournment thereof, a member of the Company is hereby:
 - (i) consenting to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the 33rd AGM (including any adjournment thereof) and the preparation and compilation of the attendance list, minutes and other documents relating to the 33rd AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes");
 - (ii) warranting that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes ("Warranty"); and
 - (iii) agreeing that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of the Warranty.

For the purposes of this paragraph, "personal data" shall have the same meaning given in section 4 of the Personal Data Protection Act 2010.

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Form of Proxy

SCOMI ENGINEERING BHD

(Company No. 111633-M)

Registered Office: Level 17, 1 First Avenue, Bandar Utama,
47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia

CDS Account No	
No. of Ordinary Shares Held	

I/We _____ NRIC No / Company No _____
(Full name as per NRIC/Certificate of Incorporation in capital letters)

of _____
(Full address)

being a member of Scomi Engineering Bhd, hereby appoint _____
(Full name as per NRIC/Passport and NRIC/Passport No)

of _____
(Full address)

or failing him/her _____
(Full name as per NRIC/Passport and NRIC/Passport No)

of _____
(Full address)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the 33rd Annual General Meeting of Scomi Engineering Bhd (the "Company") to be held at Dewan Berjaya, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur, Malaysia on Tuesday, 22 August 2017 at 10:00 am, or any adjournment thereof.

Ordinary Business		For	Against
Resolution 1	To re-elect Mr Shah Hakim @ Shahzanim Bin Zain who retires by rotation in accordance with Article 80 of the Articles of Association of the Company and who being eligible, offers himself for re-election.		
Resolution 2	To approve the payment of Directors' fees amounting to RM332,131.50 for Non-Executive Directors in respect of the financial year ended 31 March 2017.		
Resolution 3	To approve the payment of Directors' remuneration (excluding Directors' fees) to Non-Executive Directors up to an amount of RM150,000.00, from 31 January 2017 until the next Annual General Meeting of the Company.		
Resolution 4	To re-appoint KPMG PLT as Auditors of the Company for the financial year ending 31 March 2018 and to authorise the Directors to fix their remuneration.		
Special Business		For	Against
Resolution 5	Authority to issue and allot shares pursuant to Section 75 of the Companies Act, 2016.		
Resolution 6	Retention of Datuk Zainun Aishah Binti Ahmad as an Independent Director of the Company.		

Please indicate with a check mark ("✓") in the space provided to show how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

Dated this _____ day of _____ 2017

Signature / Seal _____

Fold this flap for sealing

Notes:

1. A member of the Company who is entitled to attend and vote at any general meeting of the Company is entitled to appoint any person as his/her proxy or proxies (but not more than two) to attend and vote in his/her behalf. There shall be no restriction as to the qualification of the proxy.
2. Where a member of the Company who is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, holds ordinary shares in the Company for multiple beneficial owners in one 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.
3. Where a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
4. The instrument appointing a proxy, in the case of an individual shall be signed by the appointer or his/her attorney duly authorised in writing and in the case of a corporation, either under seal or under the hand of an officer or attorney duly authorised. If no name is inserted in the space for the name of your proxy, the Chairman of the meeting will act as your proxy.
5. The instrument appointing a proxy must be completed and deposited at the office of the Share Registrar of the Company, Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time for holding the 33rd Annual General Meeting ("33rd AGM") or at any adjournment thereof, and in case of a poll, not less than twenty-four (24) hours before the time appointed for the taking of the poll, and in default, the instrument of proxy shall not be treated as valid.
6. The lodging of a completed Form of Proxy to the Share Registrar of the Company will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so. Should you subsequently decide to attend and vote in person at the meeting, you are requested to rescind your earlier appointment of proxy(ies), and notify the Share Registrar of the Company as soon as practicable.
7. For the purpose of determining a member who shall be entitled to attend this 33rd AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 57 of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 15 August 2017. Only a depositor whose name appears on the General Meeting Record of Depositors as at 15 August 2017 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his or its behalf.

Personal Data Privacy:

By lodging of a completed Form of Proxy to the Share Registrar of the Company for appointing a proxy(ies) and/or representative(s) to attend and vote in person at the 33rd AGM and any adjournment thereof, the member accepts and agrees to the personal data privacy terms as set out in the Notice of 33rd AGM dated 31 July 2017.

Then fold here



Affix
Stamp

The Registrar of Scomi Engineering Bhd
Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia

1st fold here

Scomi Engineering Bhd (111633-M)

Level 17, 1 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia

 +603 7717 3000  +603 7728 5258

www.scomiengineering.com.my