

SCOMI MARINE BHD (397979-A)
(Incorporated in Malaysia)

A. EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT – FRS 134

A1 Basis Of Preparation

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standards ("FRS") 134 Interim Financial Reporting and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007.

A2 Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2007 except for the adoption of the following revised FRS effective for the Company's financial year beginning 1 January 2008:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 126	Accounting and Reporting by Retirement Benefits Plans
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
FRS 139	Financial Instruments: Recognition and Measurement
IC Interpretation 1	Changes in Existing Decommissioning, Restoration And Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2 - Share-based Payment

The effective date in respect of FRS 139 Financial Instruments: Recognition and Measurement will be January 1, 2010. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Company will apply this standard when it becomes effective.

The adoption of the abovementioned FRSs does not result in significant changes in accounting policies of the Group.

A3 Audit Report For Preceding Annual Financial Statements

The audit report for the Group's annual financial statements for the year ended 31 December 2007 was not subject to any qualifications.

A4 Seasonal Or Cyclical Factors

The Group's operations are generally not affected by any seasonal or cyclical factors.

A5 Unusual Items

There were no unusual items that affected the assets, liabilities, equity, net income or cash flows in the current quarter under review.

A6 Changes in Estimates

The Group makes assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date during its review for impairment of goodwill.

The key assumptions and other key sources of estimation uncertainty mentioned above that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are in respect of those made during the review of impairment of goodwill. The Group determines whether goodwill is impaired on an annual basis. Estimating the value in use requires the Group to make an estimate of the expected future cashflows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cashflows. The carrying amount of goodwill as at 31 December 2008 was RM RM445.836 million.

There were no changes in estimates that have had a material effect in the results for the quarter under review.

A7 Debt And Equity Securities

During this financial year, the Company repurchased 2,000 of its issued ordinary shares from the open market at an average price of RM0.68 per share. The total consideration paid for the repurchase including transaction costs was RM1,363 and this was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Save as disclosed above, there were no issuances, cancellations, share buy-backs, resale of shares bought back and repayment of debt and debt equity securities during the financial year under review.

Dividend Paid

	2008 RM'000	2007 RM'000
<i>Interim dividend:</i>		
Tax exempt dividend of 1.25% per share declared and paid in respect of the financial year ended 31 December 2007, paid on 23 October 2007	-	9,163
Tax exempt dividend of 1.40% per share declared and paid in respect of the financial year ended 31 December 2008, paid on 9 January 2009	10,262	-
<i>Final dividend:</i>		
Tax exempt dividend of 1.25% per share declared and paid in respect of the financial year ended 31 December 2007, paid on 11 September 2008	9,163	-
Tax exempt dividend of 2.50% per share declared and paid in respect of the financial year ended 31 December 2006, paid on 12 September 2007	-	18,325
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A9 Segment Reporting

Segment information for the financial year as presented in respect of the Group's business segment

	Investment holding RM'000	Marine Services RM'000	Intersegment elimination RM'000	Total RM'000
REVENUE AND RESULTS				
REVENUE				
External sales	-	467,058	-	467,058
RESULTS				
Profit/(Loss) from operations	(12,019)	74,785	-	62,766
Interest expense	-	(36,186)	-	(36,186)
Interest income	197	808	-	1,005
Share of profits in associated companies	-	49,543	-	49,543
Profit before taxation	(11,822)	88,950	-	77,128
Taxation				(9,293)
Profit after taxation				67,835
Minority interests				(2,878)
Profit attributable to shareholders of the Company				64,957
ASSETS AND LIABILITIES				
ASSETS				
Assets employed in the segment	855,518	1,486,422	(810,308)	1,531,632
Investment in associated companies	-	264,594	-	264,594
Unallocated assets	-	-	-	10
Total assets				1,796,236
LIABILITIES				
Liabilities in segment	7,702	1,508,457	(742,595)	773,564
Unallocated liabilities	-	-	-	4,399
Total liabilities				777,963
OTHER INFORMATION				
Capital expenditure	879	33,278	-	34,157
Depreciation of Property, plant and equipment	49	51,358	-	51,407
Other significant non-cash expenses:				
- share base payment expenses	397	266	-	663

A10 Valuation of Property, Plant and Equipment

There were no changes to the valuation of property, plant and equipment brought forward from the previous annual financial statements.

A11 Material Subsequent Events

There were no material events subsequent to the end of the quarter under review that has not been reflected in these condensed financial statements for this quarter.

A12 Changes In Composition Of The Group

The changes of the Group for the year ended 31 December 2008 are as follows:

- a) On 28 March 2008, the Group acquired 2 ordinary shares of RM1.00 each representing the entire equity interest in Emerald Logistics Sdn Bhd., a company incorporated in Malaysia, for a total cash consideration of RM2.00. The intended principal activity of Emerald Logistics Sdn Bhd is an investment holding company.
- b) On 21 May 2008, the Group acquired 5,760,000 ordinary shares with par value 10,000 VND per share each for 10,000 VND per share, representing 20% equity interest in PV Trans Petro, a company incorporated in Vietnam, for a total cash consideration of RM11,377,000. The principal activity PV Trans Petro is to own and operate a clean product tanker.
- c) On 26 December 2008, the Group, via its wholly owned subsidiary, Scomi Marine Services Pte Ltd ("SMS"), acquired 98,000 ordinary share with par value of SGD1 per share for USD17.14 per share, representing 49% equity interest in Sea Master Pte Ltd ("SMPL"), a company incorporated in Singapore, for a total cash consideration of USD1.68 million (RM5.6 million). Upon completion of the acquisition, SMS's shareholding in SMPL has increased from 51% to 100% and the Group's effective interest in SMPL has also increased from 51% to 100%.

Save as disclosed in the above, there were no other changes in the composition of the Group for the current quarter.

A13 Contingent Liabilities

Details of contingent liabilities of the Group as at 20 February 2009 is as follows:-

	RM'000
Bank guarantees issued for charter of marine contracts	36,799
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A14 Capital Commitments

There are no capital commitments for the Group as at 20 February 2009 except for the following:

	RM'000
Approved and contracted for	26,984
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A15 Related party transactions

	Current quarter 3 months ended 31 December 2008 RM'000	Cumulative quarter 12 months ended 31 December 2008 RM'000
<i>Transactions with associated companies</i>		
Agency and management fees paid	331	1,408
Commission paid	-	367
Agency fee income	580	1,158
<i>Transactions with substantial shareholders</i>		
Management fee charged	344	1,684
Office rental paid/payable	26	92
Purchase of property, plant and equipment	110	110
<i>Transactions with companies of which certain substantial shareholders have interests</i>		
Admin and support services paid	68	266
Secretarial fee paid	16	76
Rental charges	68	238
Chartering income receivable	3,949	14,794
Air ticket cost charged	53	234
Car rental expense	13	13
Computer software application fees	576	576
Commission income	471	858

The Directors are of the view that the above transactions have been entered into in the normal course of business under terms and conditions no less favourable to the Group and the Company than those arranged with independent third parties.

B BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

B1 Review Of Performance

Revenue for the 4th quarter ended 31 December 2008 was higher at RM116.4 million compared to RM110.9 million recorded in the corresponding quarter in FY2007. The revenue has improved by RM5.5 million due to improved performance in our offshore support vessel business.

Despite the increase in revenue, the Gross Profit margin for the quarter was lower at 21.9% compared to 25.4% in the corresponding quarter mainly due to higher bunker expenses and docking costs as more vessels were docked compared to Q4 2007.

The Group's PATAMI for the current quarter increased by RM4.9 million or 33.8% compared to the corresponding quarter last year of RM14.6 million. The higher share of profits in associated companies contributed to the higher PATAMI for the Group. The improved performance in the associated company was due to early deployment of a deepwater vessel and better overall operational performance.

B2 Comparison Of The Current Quarter Results Against Preceding Quarter

The revenue of the Group for the current quarter decreased by RM5.2 million (4.3%) compared to RM121.7 million in the preceding quarter. The Gross Profit Margin in the current quarter of 21.9% was higher than the preceding quarter of 19.0%. The improved Gross Profit Margin was mainly due to reduction in operational expenses compared to the preceding quarter.

The PATAMI for the current quarter of RM19.6 million was 4.1% lower compared to RM20.4 million recorded in the preceding quarter. The PATAMI for Q3 2008 includes a gain on disposal of 4 vessels amounting to RM6.5 million compared to no gain in the current quarter. This has offset the favorable variance in the gross profit and higher share of profit in associates for the quarter.

B3 Current Year Prospects

The current global financial crisis and the declining trend in the crude oil price are expected to affect the Marine business, especially the Offshore Support sector. Nevertheless, with its strong fundamentals, the Group is confident that it can overcome the challenges during this difficult period.

Our Marine Logistics division involved in coal transportation in Indonesia is on fixed long term contracts with established coal producers. The challenge for the division is to ensure we operate efficiently by maximizing vessel utilization and optimize operational cost. The reduction in bunker prices will benefit the division in the longer term.

Despite the downward trend in the crude oil price, the outlook for our Offshore Support division remains positive with present contracts running up to 4 years and are with oil majors. This division is expected to contribute positively to the Group's earnings with the expected delivery of an Accommodation Barge in quarter 2 2009.

Our associated company, CH Offshore Ltd (CHO), took delivery of another 12,240 brake horse power deepwater Anchor-Handling Tug Supply (AHTS) vessel in mid November 2008 bringing the total deepwater vessels in our fleet to five. The latest addition is also working in Australia under a bareboat contract. The company is expected to take delivery of the final 2 deepwater vessels by 2010.

B4 Profit Forecast

This section is not applicable as no profit forecast was published.

B5 Taxation Charge

Taxation comprises the following:-

	Current quarter 3 months ended 31 December 2008 RM'000	Cumulative year 12 months ended 31 December 2008 RM'000
Malaysian Income taxation		
- Current year	4	23
Foreign Income taxation		
- Current year	1,394	9,344
Total	<u>1,398</u>	<u>9,367</u>
Deferred Taxation	(14)	(74)
Total	<u>1,384</u>	<u>9,293</u>
Effective tax rate	<u>6.5%</u>	<u>12.0%</u>

The effective tax rate for the current quarter presented above is lower than the statutory tax rate principally due to the tax exempt status for income derived from shipping operations in Singapore.

B6 Unquoted Investments And Properties

There was no sale of unquoted investments and properties for the quarter under review and financial year.

B7 Particulars Of Purchase Or Disposal Of Quoted Securities

There was no purchase or disposal of quoted securities for the current quarter under review and financial year.

B8 Corporate Proposals

The Group does not have any corporate proposals announced and not completed as at the date of this announcement.

B9 Group Borrowings

The Group borrowings as at 31 December 2008 are as follows:-

	RM'000
Short term borrowings (secured)	95,966
Long term borrowings (secured)	581,134
	<u>677,100</u>

The currency exposure profile of the Group borrowings is analysed as follows:

	RM'000
Malaysia Ringgit	141
United States Dollar	676,678
Singapore Dollar	281
	<u>677,100</u>

B10 Off Balance Sheet Financial Instruments

i) Foreign Exchange Contract

The Group has outstanding forward option contract to sell USD1.826 million for IDR12 billion at the option of the bank.

ii) Interest rate swap

Under interest rate swap contract, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial quarter.

B10 Off Balance Sheet Financial Instruments ("continued")

At 31 December 2008, the outstanding interest swap contracts to which the Group is committed are as follows:

	The Group	
	December 2008 RM'000	December 2007 RM'000
Notional value	494,880	466,578
Fixed interest rates	3.74% to 4.95%	3.74% to 4.95%
Floating interest rates	2.92% to 4.57%	6.11% to 7.564%

As at 31 December 2008, the Group uses interest swaps to manage its to interest rate movements on its term loan by swapping a proportion of those term loans from floating rates to fixed rate. The outstanding interest rate swap are as follow:

- (a) On 2 November 2006, the Group entered into an interest swap transaction agreement with a bank to fix its floating interest rate at 4.895% p.a. The effective date of the swap transaction is on 28 February 2007 with a notional amount of RM51.750 million (which is denominated in US Dollar, equivalent to USD 15 million). The termination date of the agreement is 31 August 2011.
- (b) On 2 November 2006, the Group entered into an interest swap transaction agreement with a bank to fix its floating interest rate at 4.95% p.a. The effective date of the swap transaction is on 28 February 2007 with a notional amount of RM51.75 million (which is dominated in US Dollar, equivalent to USD15 million). The termination date of the agreement is 31 August 2011.
- (c) On 10 September 2007 the Group entered into an interest rate swap transaction agreement with a bank to fix its floating interest rate at 4.59% p.a. The effective date of the swap transaction is on 9 October 2007 with a notional amount of RM338.6 million (which is denominated in US Dollar, equivalent to USD99.0 million). The termination date of the agreement is 6 September 2009.
- (d) On 1 October 2007, the Group entered into an interest rate swap transaction agreement with a bank to fix its floating interest rate at 4.56%p.a. The effective date of the swap transaction is on 2 October 2007 with a notional amount of RM44.05 million (which is denominated in US Dollar, equivalent to USD12.880 million). The termination date of the agreement is 27 November 2009.

B10 Off Balance Sheet Financial Instruments (“continued”)

- (e) On 16 September 2008, the Group entered into an interest rate swap transaction agreement with a bank to fix its floating interest rate at 3.74%p.a. The effective date of the swap transaction is on 27 November 2009 with a notional amount of RM29.978 million (which is denominated in US Dollar, equivalent to USD8.740 million). The termination date of the agreement is 26 August 2014.

Other than those disclosed, there were no other financial instruments with off balance sheet risks as at the end of the current quarter.

B11 Material Litigation

There was no pending material litigation at the date of this quarterly report.

B12 Proposed Dividend

No dividend has been proposed in respect of the quarter under review.

Total dividend per share for the current financial year is 1.4 sen per share (tax exempt)
(FY 2007 : 2.5 sen per share – tax exempt)

B13 Earnings Per Share

	Current Quarter		Cumulative Quarter	
	3 months ended 31 December 2008	3 months ended 31 December 2007	12 months ended 31 December 2008	12 months ended 31 December 2007
Basic earnings per share				
Profit attributable to equity holders of the Company (RM'000)	19,570	14,625	64,957	54,330
Weighted average number of ordinary shares in issue ('000)	733,009	733,009	733,009	733,009
Basic earnings per share (sen) :-				
Profit for the year	2.67	2.00	8.86	7.41
Fully diluted earnings per share				
Profit attributable to equity holders of the Company (RM'000)	19,570	14,625	64,957	54,330
Effect on dilution (RM'000)	-	-	-	-
Profit attributable to equity holders of the Company (RM'000)	19,570	14,625	64,957	54,330
Weighted average number of ordinary shares in issue ('000)	733,009	733,009	733,009	733,009
Assumed shares issued from the exercise of ESOS ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares used in the calculation of diluted earnings per share ('000)	733,009	733,009	733,009	733,099
Diluted earnings per share (sen):-				
Profit for the year	2.67	2.00	8.86	7.41

The assumed conversion of ESOS for the current quarter and the current year to date has an anti-dilutive effect on the earnings per share of the Group.

B14 Authorised For Issue

The interim financial statements were authorized for issue on 27 February 2009 by the Board of Directors.