

**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 2008.

A2 Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2008.

At the date of authorization of these interim financial statements, the following FRSs and Interpretations were issued but not yet effective and have not been applied by the Group:

FRSs and Interpretations		Effective for financial periods beginning on or after
FRS 1 (revised)	First Adoption of Financial Reporting Standards	1 July 2010
FRS 3 (revised)	Business Combination	1 July 2010
FRS 4	Insurance Contracts	1 January 2010
FRS 7	Financial Instruments : Disclosures	1 January 2010
FRS 8	Operating Segments	1 July 2009
FRS 101	Presentation of Financial Statements	1 January 2010
FRS 123	Borrowing Costs	1 January 2010
FRS 127	Consolidated and Separate Financial Statements	1 July 2010
FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards	1 January 2010
Amendments to FRS 2	Share-based Payment: Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 2	Share-based Payment	1 July 2010
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
Amendments to FRS 7	Financial Instruments: Disclosures	1 January 2010
Amendments to FRS 8	Operating Segments	1 January 2010
Amendments to FRS 107	Statement of Cash Flows	1 January 2010

Significant Accounting Policies ("continued")

FRSs and Interpretations		Effective for financial periods beginning on or after
Amendments to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2010
Amendments to FRS 110	Events after the Reporting Period	1 January 2010
Amendments to FRS 116	Property, Plant and Equipment	1 January 2010
Amendments to FRS 117	Leases	1 January 2010
Amendments to FRS 118	Revenue	1 January 2010
Amendments to FRS 119	Employee Benefits	1 January 2010
Amendments to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance	1 January 2010
Amendments to FRS 123	Borrowing Costs	1 January 2010
Amendments to FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 128	Investments in Associates	1 January 2010
Amendments to FRS 129	Financial Reporting in Hyperinflationary Economies	1 January 2010
Amendments to FRS 131	Interest in Joint Ventures	1 January 2010
Amendments to FRS 132	Financial Instruments: Presentation	1 January 2010
Amendments to FRS 134	Interim Financial Reporting	1 January 2010
Amendments to FRS 136	Impairment of Assets	1 January 2010
Amendments to FRS 138	Intangible Assets	1 January 2010
Amendments to FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 140	Investment Property	1 January 2010
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10	Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Interpretation 12	Service Concession Arrangements	1 July 2010
IC Interpretation 13	Customer Loyalty Programmes	1 January 2010
IC Interpretation 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010

A2 Significant Accounting Policies (“continued”)

IC Interpretation 15	Agreement for the Construction of Real Estate	1 July 2010
IC Interpretation 16	Hedges of Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17	Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010 and 1 July 2010

The adoptions of the above FRSs and Interpretations upon their effective dates are not expected to have any significant impact on the interim financial statements of the Group. The Group is exempted from disclosing the possible impact, if any, to the financial statements upon its initial application of FRS 139.

A3 Audit Report for Preceding Annual Financial Statements

The audit report for the Group’s annual financial statements for the year ended 31 December 2008 was not subject to any qualification.

A4 Seasonal or Cyclical Factors

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

A5 Unusual Items

Save as disclosed in Note A6 below, there are 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 period 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 cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As the result of the review, the carrying amount of goodwill as at 31 December 2009 was written down to RM281.0 million.

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 RM0.48 per share. The total consideration paid for the repurchase including transaction costs was RM957 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 period under review.

A8 Dividend Paid

	2009 RM'000	2008 RM'000
<i>Interim dividend:</i>		
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	-
Tax exempt dividend of 0.75% per share declared and paid in respect of the financial year ended 31 December 2009, paid on 23 December 2009	5,497	-
<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	-	9,162
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A9 Segment Reporting

Segment information for the financial period 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	-	448,332	-	448,332
Inter-segment dividends	22,235	-	(22,235)	-
Total revenue	<u>22,235</u>	<u>448,332</u>	<u>(22,235)</u>	<u>448,332</u>
RESULTS				
Profit/(Loss) from operations	15,239	(70,688)	(22,235)	(77,684)
Interest expense	(8)	(28,430)	-	(28,438)
Interest income	19	964	-	983
Share of profits in associated companies	-	43,576	-	43,576
Profit/(Loss) before taxation	<u>15,250</u>	<u>(54,578)</u>	<u>(22,235)</u>	<u>(61,563)</u>
Taxation				<u>(6,342)</u>
Loss after taxation				<u>(67,905)</u>
Minority interests				<u>(3,761)</u>
Loss attributable to shareholders of the Company				<u>(71,666)</u>
	Investment holding RM'000	Marine Services RM'000	Intersegment elimination RM'000	Total RM'000
ASSETS AND LIABILITIES				
ASSETS				
Assets employed in the segment	851,527	1,221,092	(801,935)	1,270,684
Investment in associated companies	-	296,055	-	296,055
Unallocated assets	-	-	-	60
Total assets				<u>1,566,799</u>
LIABILITIES				
Liabilities in segment	1,058	1,363,408	(732,378)	632,088
Unallocated liabilities				1,712
Total liabilities				<u>633,800</u>
OTHER INFORMATION				
Capital expenditure	-	45,925	-	45,925
Depreciation of Property, plant and equipment	156	57,056	-	57,211
Other significant non-cash expenses:				
- share base payment expenses	2,025	450	-	2,475

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

Save as disclosed in Note B8 below, there are 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

On 10 September 2009, Emerald Logistics Sdn Bhd ("ELSB") has ceased to be a subsidiary of Scomi Marine Bhd ("SMB") pursuant to the transfer of one ordinary share of RM1.00 each in ELSB to Balance Plus Sdn Bhd ("BPSB") and the allotment by ELSB of 50,999 shares for a cash consideration at par to BPSB and 48,999 shares at par to SMB.

The above has resulted in a change in classification of ELSB from a wholly owned subsidiary to a 49% owned associated company.

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 18 February 2010 is as follows:-

	RM'000
Bank guarantees issued for charter marine contracts	35,475
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A14 Capital Commitments

There are no capital commitments for the Group as at 18 February 2010 except for the following:

	RM'000
Property, plant and equipment	
Approved and contracted for	37,065
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The future minimum lease payments under non-cancellable operating leases as at 31 December 2009 are as follows:

In respect of:	Expiring within one year RM'000	Expiring between one to five years RM'000
Rental of office premises	151	-
Re-charter vessel contracts	18,540	1,316
	<u>18,691</u>	<u>1,316</u>

The currency exposure profile of the operating lease commitments are in United States Dollar.

A15 Related party transactions

	Current quarter 3 months ended 31 December 2009 RM'000	Cumulative quarter 12 months ended 31 December 2009 RM'000
<i>Transactions with associated companies</i>		
Agency and management fees paid	350	1,346
Agency fee income	224	260
<i>Transactions with substantial shareholders</i>		
Management fee charged	54	215
Office rental paid/payable	69	173
<i>Transactions with companies of which certain substantial shareholders have interests</i>		
Admin and support services paid	71	280
Secretarial fees paid	22	87
Rental charges	69	277
Chartering income receivable	-	9,087
Air ticket cost charged	38	154
Car rental expense	-	13
Computer software application fees	19	131
Commission income	111	446

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

Current quarter

Revenue for the 3 months ended 31 December 2009 was lower at RM110.9 million compared to RM116.4 million recorded in the corresponding quarter of FY2008. The decrease in revenue of RM5.5 million was mainly due to lower tonnage carried for our coal division as production was affected by rain.

The gross profit was higher at RM45.7 million compared to the corresponding quarter of RM25.5 million. The gross profit margin achieved was 41.2% compared to 21.9% in the corresponding quarter due to improved operations management, lower bunker costs and capitalization of docking costs.

In line with higher gross profit, the Group recorded an operational PATAMI of RM41.2 million, RM21.6 million higher compared to the corresponding quarter.

The Group had to recognised an impairment loss on goodwill of RM158.6 million and provisions for insurance claim and doubtful debts of RM13.7 million during the quarter. These adjustments reduced the Group's PATAMI to a loss of RM131.1 million for the quarter.

Current year

The revenue of the Group decreased by RM18.7 million compared to the corresponding period primarily due to lower tonnage carried for the coal division. This was mitigated by improved performance in the Offshore Support division as the delivery of an accommodation barge during the year enhanced contribution.

Notwithstanding the lower revenue, the Group registered a higher gross profit as a result of an improved gross profit margin compared to the corresponding year due to improved operations management, lower bunker costs and capitalization of docking costs.

The full year PATAMI before adjustments was RM100.7 million, an improvement of RM35.7 million over the corresponding year. With the recognition of the adjustments for impairment loss on goodwill and provisions for insurance claim and doubtful debts, the PATAMI significantly decreased to a loss of RM71.7 million.

B2 Comparison of The Current Quarter Results Against Preceding Quarter

The revenue for the current quarter decreased by RM5.2 million or 4.5% compared to RM116.1 million in the preceding quarter. The lower revenue in the current quarter is mainly due to lower tonnage carried during the current quarter compared to the preceding quarter.

The Group recorded negative PATAMI of RM131.1 million for the current quarter compared to positive PATAMI of RM25.5 million in the preceding quarter. The significant unfavourable variance is due to the adjustments on the goodwill impairment and provision for insurance claim and doubtful debts. Excluding this one-off adjustments, the current quarter registered PATAMI of RM41.2 million.

B3 Current Year Prospects

Our performance for FY2009 was impacted by the accounting adjustment for goodwill impairment. Operationally, the businesses continue to perform admirably under the challenging environment. The long term fundamentals for both the coal and offshore Oil and Gas sectors remain intact, which is cause for optimism for the Group.

The global demand for coal is expected to remain strong with Indonesia continues to be one of the major coal producers and exporter. Our Coal division will continue to consolidate its position as valued transportation providers for our partners in Indonesia. In line with the upward trend in crude oil prices, the bunker cost is expected to increase and the division will continue to pursue proactive management of its costs in order to maintain its contribution to the Group's earnings.

With the charter rates expected to remain stable in this region, the Offshore division is planning to invest in new vessels, taking into account the reasonable prices of vessels. Fleet utilization and operational efficiency will continue to be pursued as part of the strategic thrust to enhance the earnings of the division.

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 2009 RM'000	Cumulative period 12 months ended 31 December 2009 RM'000
Malaysian Income taxation		
- Current year	5	20
Foreign Income taxation		
- Current year	(2,495)	6,322
Total	<u>(2,490)</u>	<u>6,342</u>
Effective tax rate	<u>(1.9%)</u>	<u>10.3%</u>

Taxation for the current quarter is a reversal of taxation which has been over provided in the preceding quarters. The effective tax rate for the financial year 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

On 5th February 2010, the Company announced the proposed disposal of 205,000,000 ordinary shares in CH Offshore Ltd ("CHO") representing 29.07% of the entire issued ordinary shares of CHO by Scomi Marine Services Pte Ltd, a wholly-owned subsidiary of the Company, to Falcon Energy Group Limited for a total cash consideration of SGD143,500,000.00.

No changes in the status above since the date of the announcement.

B9 Group Borrowings

The Group borrowings as at 31 December 2009 are as follows:-

	RM'000
Short term borrowings (secured)	139,806
Long term borrowings (secured)	412,139
	<u>551,945</u>

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

	RM'000
Malaysia Ringgit	114
United States Dollar	551,658
Singapore Dollar	173
	<u>551,945</u>

B10 Off Balance Sheet Financial Instruments**Interest rate swap**

The Group uses interest rate swaps to manage its exposure to interest rate movements on its term loans by swapping a proportion of those term loans from floating rates to fixed rates.

B10 Off Balance Sheet Financial Instruments ("continued")

At 31 December 2009, the outstanding interest swap contracts to which the Group is committed are as follows:

	The Group	
	2009	2008
	RM'000	RM'000
Notional value	505,830	485,738
Fixed interest rates	2.02% to 4.95%	3.74% to 4.95%
Floating interest rates	0.23% to 5.1%	2.19% to 3.01%

As at 31 December 2009, the Group uses interest swaps to manage its 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 swaps are as follows:

- (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 RM51.75 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 5 October 2009, 29 October 2009 and 3 November 2009, the Group entered into interest rate swap transaction agreements with a bank to fix its floating interest rate at a range of 2.02% p.a to 2.15% p.a.. The effective date of the swap transaction is on 8 December 2009 with a notional amount of RM405.6 million (which is denominated in US Dollar, equivalent to USD120.0 million). The termination date of the agreement is 6 September 2014.
- (e) 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.
- (f) 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 tax-exempt dividend per share that has been declared and paid for the current financial year was 0.75 sen per share (FY 2008: 1.4 sen per share – tax exempt).

B13 Earnings Per Share

	Current Quarter		Cumulative Quarter	
	3 months ended 31 December 2009	3 months ended 31 December 2008	12 months ended 31 December 2009	12 months ended 31 December 2008
<u>Basic (loss)/earnings per share</u>				
(Loss)/Profit attributable to equity holders of the Company	(131,138)	19,570	(71,666)	64,957
Weighted average number of ordinary shares in issue ('000)	733,004	733,006	733,004	733,006
Basic (loss)/earnings per share (sen) :- (Loss)/Profit for the period	(17.89)	2.67	(9.78)	8.86
<u>Fully diluted (loss)/earnings per share</u>				
(Loss)/Profit attributable to equity holders of the Company (RM'000)	(131,138)	19,570	(71,666)	64,957
Weighted average number of ordinary shares in issue ('000)	733,004	733,006	733,004	733,006
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)	733,004	733,006	733,004	733,006
Diluted (loss)/earnings per share (sen):- (Loss)/Profit for the period	n.a	n.a	n.a	n.a

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 25 February 2010 by the Board of Directors.