

## **PART A: EXPLANATORY NOTES AS PER FRS 134**

### **A1. Basis of preparation of interim financial reports**

The interim financial statements are prepared in accordance with the requirements of the Financial Reporting Standards ("FRS") 134: "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Bursa Malaysia Securities Berhad's ("Bursa Malaysia") Listing Requirements and should be read in conjunction with the Company's annual audited financial statements for the year ended 31 December 2008.

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

At the date of authorisation 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**

FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentations of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards
Amendments to FRS 2	Share-based Payment: Vesting Conditions and Cancellations
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Financial Instruments: Disclosures
Amendments to FRS 8	Operating Segments
Amendments to FRS 107	Statement of Cash Flows
Amendments to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to FRS 110	Events after the Reporting Period
Amendments to FRS 116	Property, Plant & Equipment
Amendments to FRS 117	Leases
Amendments to FRS 118	Revenue
Amendments to FRS 119	Employee Benefits
Amendments to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
Amendments to FRS 123	Borrowing Costs
Amendments to FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 128	Investments in Associates
Amendments to FRS 129	Financial Reporting in Hyperinflationary Economies
Amendments to FRS 131	Interest in Joint Ventures
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 134	Interim Financial Reporting
Amendments to FRS 136	Impairment of Assets
Amendments to FRS 138	Intangible Assets
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 140	Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives

**A1. Basis of preparation of interim financial reports (continued)**

All the new FRSs, amendments to FRSs, IC Interpretations and amendment to IC above are effective from 1 January 2010 with the exception of FRS 8, which is effective from 1 July 2009. The adoption of the FRSs, Amendments to FRSs and Interpretations upon their effective dates are not expected to have any significant impact on the 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 7 and FRS 139.

**A2. Qualification of financial statements**

The preceding year annual financial statements were not subject to any qualification.

**A3. Seasonal and cyclical factors**

The group's results were not materially affected by any major seasonal or cyclical factors.

**A4. Unusual and extraordinary items**

There were no exceptional and/or extraordinary items affecting assets, liabilities, equity, net income or cashflows during the current quarter under review.

**A5. Material changes in estimates**

The Group makes assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date including impairment of intangible assets, depreciation on property, plant and equipment, and deferred tax assets that could arise from unused tax losses and unabsorbed capital allowances.

There were no material changes in estimates reported in the current quarter under review.

**A6. Issuance and repayment of debt and equity securities**

Save as disclosed below, there were no issuances, cancellations, share buy-backs, resale of shares bought back or repayment of debt and equity securities:

**(a) Employee Share Options Scheme ("ESOS")**

During the nine-month period ended 30 September 2009, the issued and paid-up share capital of the Company increased from 1,021,838,800 ordinary shares of RM0.10 each to 1,024,651,400 ordinary shares of RM0.10 each by the issuance of 2,812,600 new ordinary shares of RM0.10 each pursuant to the exercise of options granted under the ESOS at the option price of RM0.17 per ordinary share.

**(b) Treasury Shares**

For the nine-month period ended 30 September 2009, the treasury shares of the Company increased from 14,426,200 to 14,427,200 with the repurchased of 1,000 of its issued ordinary shares from the open market at an average price of RM0.71 per share. The total consideration paid for the repurchase including transactions costs was RM711.21. This shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965.

**A7. Dividends Paid**

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
Final single-tier tax exempt dividend of 5% in respect of financial year 31 December 2008	5,051	-
Final dividend of 12.5% less income tax of 26% in respect of financial year ending 31 December 2007	-	9,317
Total dividend paid	<u>5,051</u>	<u>9,317</u>

## A8. Segmental Information

	Oilfield Services RM'000	Energy & Logistics Engineering RM'000	Production Enhancement RM'000	Energy Logistics RM'000	Investment Holding RM'000	Elimination RM'000	Group RM'000
<b>2009</b>							
<u>Revenue</u>							
External sales	1,010,522	400,201	36,563	40,450	166	-	1,487,902
Inter-segment sales	-	-	-	-	27,641	(27,641)	-
Total revenue	<u>1,010,522</u>	<u>400,201</u>	<u>36,563</u>	<u>40,450</u>	<u>27,807</u>	<u>(27,641)</u>	<u>1,487,902</u>
<u>Results</u>							
Segment result	91,924	69,132	2,114	(2,250)	2,529	(35,260)	128,189
Finance income							880
Finance cost							(58,015)
Share of result of							
- associated companies	-	-	-	25,497	-	-	25,497
- jointly controlled entities	-	-	3,286	-	-	-	3,286
Profit before taxation							<u>99,837</u>
Taxation							<u>(29,187)</u>
Profit after taxation							<u>70,650</u>
Segment assets	1,571,707	825,016	66,365	-	38,337	7,985	2,509,410
Investment in associates	-	-	-	-	419,150	-	419,150
Investment in Jointly Controlled Entities	-	-	5,110	-	-	-	5,110
Unallocated assets							<u>99,437</u>
Total assets							<u>3,033,107</u>
<b>2008</b>							
<u>Revenue</u>							
External sales	1,106,278	320,224	48,683	31,700	1,338	-	1,508,223
Inter-segment sales	-	-	-	-	24,020	(24,020)	-
Total revenue	<u>1,106,278</u>	<u>320,224</u>	<u>48,683</u>	<u>31,700</u>	<u>25,358</u>	<u>(24,020)</u>	<u>1,508,223</u>
<u>Results</u>							
Segment result	95,430	29,757	(15)	9,349	34,077	(19,108)	149,490
Finance income							1,822
Finance cost							(55,738)
Share of result of							
associated companies	265	-	-	19,405	-	-	19,670
Profit before taxation							<u>115,244</u>
Taxation							<u>(19,373)</u>
Profit after taxation							<u>95,871</u>
Segment assets	1,631,709	642,267	62,426	40,479	45,487	29,488	2,451,856
Investment in associates	2	-	-	-	384,079	-	384,081
Investment in Jointly Controlled Entities	-	-	19	-	-	-	19
Unallocated assets							<u>50,655</u>
Total assets							<u>2,886,611</u>

## A9. Valuation of property, plant and equipment

There is no revaluation of property, plant and equipment, as the group does not adopt a revaluation policy on property, plant and equipment.

## A10. Subsequent Events

There were no materials events subsequent to the end of the quarter under review.

## A11. Changes in composition of the group

- (a) On 6 May 2009, Scomi Group Bhd ("SGB") and ITS Tubular Services (Holdings) Ltd ("ITS") entered into a joint venture agreement and subsequently formed a joint venture company named ITS Scomi Pte Limited ("JVCo") in Singapore. The issued and paid up share capital is USD100.00 comprising 100 ordinary shares of USD1.00 each of which SGB holds 25 ordinary shares of USD1.00 each, representing 25% of the issued and paid-up share capital of the JVCo. The balance of 75 ordinary shares of USD1.00 each in the JVCo is held by ITS, representing 75% of the issued and paid-up share capital of the JVCo.
- (b) On 16 July 2009, Scomi Chemicals Sdn Bhd ("Scomi Chemicals"), a wholly owned subsidiary of the Company, disposed 300,000 ordinary shares of RM1.00 each in Scomi Sosma Sdn Bhd ("Scomi Sosma") representing 60% of the issued and paid-up share capital of Scomi Sosma to Ombak Elegan Sdn Bhd for a total cash consideration of RM3,900,000 ("the Disposal").
- (c) On 7 August 2009, Scomi Oiltools (Africa) Limited ("SOAL"), an indirect subsidiary of SGB, had incorporated a company limited by shares known as Oiltools Africa Limited ("OAL") in the Federal Republic of Nigeria. The total issued share capital of OAL is Naira Ten Million (NGN 10,000,000) divided into Five Hundred Thousand (500,000) shares of Naira Twenty (NGN 20) each only of which SOAL holds 98% interest in OAL and Scomi Oiltools Bermuda Limited ("SOBL"), another indirect subsidiary of SGB, holds the remaining 2% interest in OAL. The total cost of investment by SOAL and SOBL in OAL is equivalent to approximately USD69,596 or RM246,154.
- (d) On 24 August 2009, SGB completed its disposal of 1,200,000 ordinary shares of RM1.00 each in its subsidiary, Scomi Oilserve Sdn Bhd ("Scomi Oilserve") representing 60% of the total issued and paid-up share capital of Scomi Oilserve at a total cash consideration of RM8.17 million.
- (e) On 16 September 2009, SGB incorporated a wholly-owned subsidiary, Scomi International Private Limited ("Scomi International") in Singapore. The initial issued share capital of Scomi International is S\$2.00 comprising of 2 ordinary shares.

## A12. Contingent liabilities

Details of contingent liabilities of the Group at the end of the quarter are as follows:

	<b>RM `000</b>
Bank guarantees given to third party in respect of performance guarantee given by subsidiaries	92,061
Various legal claims of subsidiaries	937
Share of contingent liabilities in associate	16,781
	<u>109,779</u>

### A13. Capital and operating lease commitments

Authorised capital commitments not provided for in the financial statements at the end of the quarter are as follows:

	<b>Approved and contracted for RM`000</b>	<b>Approved but not contracted for RM`000</b>	<b>Total RM`000</b>
Property, plant and equipment	15,376	17,624	33,000
Development expenditure	2,271	12,749	15,020
Others	95	9,811	9,906
<b>Total</b>	<b>17,742</b>	<b>40,184</b>	<b>57,926</b>

Operating lease commitments:

<b>Future minimum lease rental payable</b>	<b>Due within 1 year RM'000</b>	<b>Due within 1 &amp; 5 years RM'000</b>	<b>Due after 5 years RM'000</b>	<b>Total RM'000</b>
Property	9,763	17,062	4,683	31,508
Plant and Machinery	1,721	6,884	7,739	16,344
Others	1,500	1,291	-	2,791
<b>Total</b>	<b>12,984</b>	<b>25,237</b>	<b>12,422</b>	<b>50,643</b>

### A14. Related Party Transactions

The following are the significant related party transactions:

	<b>3<sup>rd</sup> Quarter ended 30-Sep-09 RM'000</b>	<b>Year -to-date 30-Sep-09 RM'000</b>
<i>Transactions with companies with common Director(s)</i> - chartering of marine vessels	2,400	17,583
<i>Transactions with an associated company</i> - management fee charged	33	166
<i>Transactions with a company connected to a Director</i> - Purchase of airline ticketing services	914	2,550
<i>Transactions with a company connected to a subsidiary's former Director</i> - Trading arrangement	25,153	69,627

**PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA  
SECURITIES BERHAD'S LISTING REQUIREMENTS**

**B1. Review of performance for the quarter ended 30<sup>th</sup> September 2009**

B1 should be read in conjunction with A8 above.

The Group recorded a turnover of RM424.1 million for the current quarter compared to RM504.3 million for the corresponding quarter in 2008. The revenue was mostly generated by the Oilfield Services Division and the Energy & Logistics Engineering Division.

The Oilfield Services Division generated revenue of RM310.9 million for the current quarter, representing a decrease of RM82 million (21%) over RM392.9 million recorded in the corresponding quarter in 2008. The decrease was mainly due to the decline in the number of rig counts especially in the Western Hemisphere because of low oil prices and the economic downturn.

Revenue from the Energy & Logistics Engineering Division was RM122.3 million. This was RM30.4 million (33%) higher than the revenue in the previous year's corresponding quarter of RM91.9 million. This division recorded higher sales from its Rail unit with the ongoing Mumbai monorail project notwithstanding that its Machine Shop unit registered lower connector sales.

Net profit for the current quarter was RM23.0 million compared to RM19.3 million in the corresponding quarter last year. The increase in net profit of RM3.7 million (19%) was mainly attributable to the contribution from the Energy & Logistics Engineering Division.

**B2. Variation of results against preceding quarter**

The Group achieved a turnover of RM424.1 million for the current quarter compared to RM535.6 million in the preceding quarter, representing a decrease of RM111.5 million (21%). The decrease in revenue was substantially from the Energy & Logistics Engineering Division due to lower revenue in the Rail and Machine Shop units, and lower sales generated by the Oilfield Services Division.

Net profit for the current quarter was RM23.0 million against RM20.8 million in the preceding quarter. The increase of RM2.2 million (11%) was mainly attributable to the higher share of profit contribution from an associate company involved in the marine and logistics business.

### **B3. Current year prospects**

The Group's performance in 2009 will continue to be affected by the current negative global economic conditions.

The **Oilfield Services Division's** performance for the current quarter continued to be challenged by flat global drilling activity compared to previous quarter. This trend is expected to continue in early 2010 as international oil majors & large independents continue to control their capital expenditure until there is less volatility in the prices of commodities and improved fundamental on commodities' demand. The operational outlook in markets such as US has improved slightly with the total average rig count increase of 8% to 1,087 units in current quarter compared to previous quarter. However, the equipment utilization rates and yields are still relatively low due to the surplus of equipment in the region. Nonetheless in Asia and the Middle East, the company's outlook is still positive with the award and commencement of various new contracts.

The **Energy & Logistics Engineering Division** will continue to contribute positively to the Group in 2009. The Rail unit is anticipated to lead the performance of the Group in 2009 with the Mumbai monorail project. This Division's core business driver is the public transportation sector with increasing demand by urban communities for efficient, reliable and cost effective transportation solutions. The rapid income growth and urbanization in emerging markets such as China, India, Gulf States, Brazil and Indonesia will lead to increasing opportunities for global infrastructure in these countries. The Machine Shop unit is investing in research and development on new connectors in an effort to expand the market coverage for casings and connectors. It has also embarked in the expansion of its existing Machine Shop facilities in Indonesia and Thailand, and in Australia, it has relocated to a bigger and enhanced facility.

The **Energy Logistics Division** achieved a 16% improvement in coal tonnage carried for the third quarter of 2009 and this trend is expected to continue for the rest of the year. With lower fuel price and lower operating expenses, the division is expected to improve its contribution to the Group's earnings. Charter rates in the coming months are expected to remain stable in South East Asia. The offshore unit will continue with its fleet renewal program to improve its operational efficiency and expansion of its fleet of new vessels is in progress to capitalize on the current attractive vessel prices. Associate company, CH Offshore Limited is expected to take delivery of two vessels in November 2009 and February 2010 which would bring its total deepwater fleet to seven.

The **Production Enhancement Division** focuses on research and development to create new patented technologies/applications and environmentally friendly products and services. This Division is actively pursuing new business opportunities and is making good progress in the gas separation business.

### **B4. Variance of actual and revenue or profit estimate**

The group has not provided any quarterly profit forecast for the period under review.



## B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30-Sep-09 RM`000	Preceding Year Quarter 30-Sep-08 RM`000	Current Year Quarter 30-Sep-09 RM`000	Preceding Year Quarter 30-Sep-08 RM`000
Current tax:				
Malaysian income tax	397	1,720	2,319	3,539
Foreign tax	4,626	4,460	23,955	19,424
	<u>5,023</u>	<u>6,180</u>	<u>26,274</u>	<u>22,963</u>
Under/(Over)provision of income tax in prior years	(47)	(571)	(159)	(1,269)
	<u>4,976</u>	<u>5,609</u>	<u>26,115</u>	<u>21,694</u>
Deferred tax	(2,728)	(1,006)	3,072	(2,321)
Total income tax expense	<u>2,248</u>	<u>4,603</u>	<u>29,187</u>	<u>19,373</u>

Domestic current income tax is calculated at the statutory tax rate of 25% (2008: 26%) of the taxable profit for the year. Taxation for the other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The effective tax rate of the Group for the current quarter was lower mainly due:-

- i. different tax rate in other countries; and
- ii. utilisation of previously unrecognised tax losses and tax incentive.

## B6. Unquoted investments and/or properties

There were no disposals of unquoted investments or properties during the period under review except as disclosed under Note A11(b) and (d).

## B7. Quoted and marketable investments

(a) Details of purchases and disposals of quoted securities are as follows:

	Individual Quarter		Cumulative Quarter	
	30-Sep-09 RM`000	30-Sep-08 RM`000	30-Sep-09 RM`000	30-Sep-08 RM`000
Purchases (at cost)	-	-	-	800
Sale proceeds	-	-	(1,500)	-
Gain/(loss) on disposal	-	-	-	-

(b) Details of investments in quoted securities as at the reporting date are as follows:

	RM`000
Total investments at cost	<u>2,957</u>
Total investments at carrying value	<u>571</u>
Total investments at market value	<u>417</u>

## **B8. Status of corporate proposals**

### **Proposed Rights Issue**

On 13 August 2009, CIMB, on behalf of the Company announced a proposed renounceable rights issue of up to RM165,669,555 nominal value of three (3) year 4% Iredeemable Convertible Secured Loan Stock ("ICSLs") at 100% of its nominal value together with up to 220,892,740 free detachable Warrants on the basis of fifteen (15) RM0.10 nominal value ICSLS together with two (2) free Warrants for every ten (10) SGB ordinary shares held on an entitlement date to be determined and announced later ("Proposed Rights Issue"). The minimum amount to be raised from the Proposed Rights Issue is RM90 million.

The Company has obtained the necessary approvals from Bank Negara Malaysia, the Securities Commission and Bursa Securities Malaysia Berhad on 17 September, 23 September and 9 October 2009 respectively in relation to the Proposed Rights Issue.

The Proposed Rights Issue was approved by the shareholders of the Company on 30 October 2009.

### **Proposed SEB Rights Issue**

On 27 August 2009, Maybank Investment Bank Berhad, announced on behalf of the Company that Scomi Engineering Bhd ("SEB") proposed to undertake a renounceable rights issue of up to RM68,312,059 nominal value of 3-year 4% irredeemable convertible unsecured loan stocks ("ICULS") at 100% of its nominal value on the basis of two (2) RM1.00 nominal value of ICULS for every nine (9) existing SEB Shares on an entitlement date to be determined.

SGB, as a major shareholder of SEB, will undertake to subscribe for its entitlements to the ICULS and any entitlements not taken up by other shareholders of SEB up to the amount of RM61,240,948.

The Proposed SEB Rights Issue is pending the approval of the Securities Commission and shareholders' approval.

## **B9. Group borrowings (Secured)**

The group borrowings as at the end of the reporting period are as follows:

<b><u>Group Borrowings</u></b>	<b>RM'000</b>
Short-term Borrowings	318,586
Long-term Borrowings	<u>989,735</u>
	<u><u>1,308,321</u></u>

The group borrowings are denominated in the following currencies:

	<b>RM`000</b>
Ringgit Malaysia	1,062,236
US Dollar	169,776
Sterling Pound	43,721
Canadian Dollar	14,080
Singapore Dollar	5,392
Others	<u>13,116</u>
Total	<u><u>1,308,321</u></u>

## **B10. Off balance sheet financial instruments**

### **Financial Instruments**

The following are the Group's off balance sheet financial instruments for the quarter under review:

- (a) The Group has some Cross Currency Interest Rate Swaps (CCIRS) which qualifies for hedge accounting for the Group's exposure to foreign exchange on its RM630million Murabahah Notes. The face or contract amount of the CCIRS entered to date amounts to RM613.5million, with the respective maturity dates as follows:

<b>RM' million</b>	<b>Maturity Date</b>
<b>150.0</b>	31.12.2010
<b>150.0</b>	31.12.2011
<b>160.0</b>	31.12.2012
<b>153.5</b>	31.12.2013
<b>613.5</b>	

- (b) The Group has entered into some USD/MYR Target Redemption Forward (TRF) contracts as hedges for USD sales to manage exposure to fluctuations in USD exchange rates against MYR. The balance of the notional amount of the TRF as at 29 October 2009 (being 7 days from the date of issuance of the quarterly report) ranges from USD1.25million to USD2.5million with remaining maturity period ranging from October to November 2009.

### **Credit and Market Risk**

The credit risk to the aforesaid financial instruments is the credit risk of the financial institution, being the counterparty of the financial instruments, although such risk is remote given that these financial instruments are executed with creditworthy financial institution.

The market risk of the CCIRS consists of interest rate risk and foreign currency exchange risk which are offset by the corresponding risks of the financial instrument itself.

### **Security**

The swap providers of the CCIRS will share the same security as that given to the bond holders.

There is no additional collateral requirement for the CCIRS, nor for the TRF.

### **Accounting Policy**

The accounting policy on recognition of derivative instruments is consistent with those adopted in the annual financial statements for the year ended 31<sup>st</sup> December 2008.

## **B11. Change in material litigation**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material adverse effect on the financial position of the Company or any of its subsidiaries and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or any of its subsidiaries.

**B12. Proposed Dividend**

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

**B13. Earnings per share**

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>30-Sep-09</b>	<b>30-Sep-08</b>	<b>30-Sep-09</b>	<b>30-Sep-08</b>
<b>Basic earnings per share</b>				
Net profit attributable to shareholders (RM'000)	22,975	19,332	53,338	75,688
Weighted average number of shares in issue ('000)	1,008,746	1,006,654	1,008,746	1,005,997
Basic earnings per share (sen)	2.28	1.92	5.29	7.52
<b>Diluted earnings per share</b>				
Net profit attributable to shareholders (RM'000)	22,975	19,332	53,338	75,688
Weighted average number of shares in issue ('000)	1,008,746	1,006,654	1,008,746	1,005,997
Dilutive effect of unexercised share option (RM'000)	6,493	10,667	6,493	10,667
	1,015,239	1,017,321	1,015,239	1,016,664
Diluted earnings per share (sen)	2.26	1.90	5.25	7.44

**B14. Authorised for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 5 November 2009.