SCOMI ENGINEERING BERHAD (111633-M)
(Incorporated in Malaysia)

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of Preparation of Interim Financial Reports

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards ("FRS") 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2008.

The significant accounting policies, methods of computation and basis of consolidation applied in the interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2008.

The following FRSs, Amendments to FRSs and Interpretations were issued but not yet effective and have not been early adopted by the Group:

FRSs, Amendments to FRSs and Interpretations		**Effective for financial periods beginning on or after**
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations	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
Amendment to FRS 1	First-time Adoption of Financial Reporting Standards	1 January 2010
Amendment to FRS 2	Share-based Payment: Vesting Conditions and Cancellations	1 January 2010
Amendment to FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010 and 1 July 2010
Amendment to FRS 107	Statement of Cash Flows	1 January 2010
Amendment to FRS 110	Events after the Balance Sheet Date	1 January 2010
Amendment to FRS 116	Property, Plant and Equipment	1 January 2010
Amendment to FRS 117	Leases	1 January 2010
Amendment to FRS 118	Revenue	1 January 2010
Amendment to FRS 119	Employee Benefits	1 January 2010

A1. Basis of Preparation of Interim Financial Reports (continued)

FRSs, Amendments to FRSs and Interpretations		Effective for financial periods beginning on or after
Amendment to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance	1 January 2010
Amendment to FRS 123	Borrowing Costs	1 January 2010
Amendment to FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendment to FRS 128	Investment in Associates	1 January 2010
Amendment to FRS 129	Financial Reporting in Hyperinflationary Economies	1 January 2010
Amendment to FRS 131	Interest in Joint Ventures	1 January 2010
Amendment to FRS 132	Financial Instruments: Presentation	1 January 2010
Amendment to FRS 134	Interim Financial Reporting	1 January 2010
Amendment to FRS 136	Impairment of Assets	1 January 2010
Amendment to FRS 138	Intangible Assets	1 January 2010 and 1 July 2010
Amendment to FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
Amendment 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 Assets, Minimum Funding Requirements and their Interactions	1 January 2010
IC Interpretation 15	Agreements for Construction of Real Estate	1 July 2010
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17	Distributions of Non-cash Assets to Owners	1 July 2010
Amendment to IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010 and 1 July 2010

The adoption of the above FRSs, Amendments to FRSs and Interpretations upon their effective dates is 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, arising from the initial application of FRS 7 and FRS 139 on the financial statements of the Group.

A2. Qualification of Financial Statements

The financial statements for the year ended 31 December 2008 were not subject to any qualification.

A3. Seasonal or Cyclical Factors

The operations of the Group were not significantly affected by any major seasonal or cyclical factors during the year under review.

A4. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cashflows during the year under review.

A5. Material Changes in Estimates

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

A6. Issuance and Repayment of Debt and Equity Securities

Other than as disclosed below, there were no issuance, cancellation, share buy-back, resale of shares bought back and repayment of debt and equity securities by the Company:-

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

During the year ended 31 December 2009, the issued and paid-up share capital of the Company increased from 275,694,067 ordinary shares of RM1.00 each to 276,180,067 ordinary shares of RM1.00 each by the issuance of 486,000 new ordinary shares of RM1.00 each at subscription price of RM1.00 per ordinary share, pursuant to the exercise of options granted under the ESOS of the Company.

(b) Treasury Shares

During the year ended 31 December 2009, the Treasury Shares of the Company increased from 118,800 to 119,800 with the repurchase of 1,000 of its issued ordinary shares of RM1.00 each from the open market at a price of RM0.96 per share. The total consideration paid for the repurchase including transaction costs was RM1,001 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.

A7. Dividends Paid

A final tax exempt dividend of 5 sen per share in respect of the financial year ended 31 December 2008 amounting RM13,779,213 was paid on 4 September 2009.

A8. Segmental Information

	3-month ended		YTD 12-month ended	
	31.12.09	31.12.08	31.12.09	31.12.08
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Revenue from continuing operations:				
Energy Engineering	32,049	72,146	180,619	266,802
Logistics Engineering	105,399	41,997	357,030	165,919
Total revenue from continuing operations	137,448	114,143	537,649	432,721
Revenue from discontinued operations	-	-	-	1,646
Total	**137,448**	**114,143**	**537,649**	**434,367**
Segment Results				
Results from continuing operations:				
Energy Engineering	2,449	1,250	25,339	18,813
Logistics Engineering	10,930	(11,228)	38,211	(6,564)
Total results from continuing operations	13,379	(9,978)	63,550	12,249
Results from discontinued operations	-	-	-	(662)
Total results from operations	13,379	(9,978)	63,550	11,587
Corporate expenses	(1,428)	641	(2,687)	(1,207)
Gain on disposal of subsidiary	-	-	-	2,011
Total	**11,951**	**(9,337)**	**60,863**	**12,391**

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. Significant events subsequent to the end of the year

There were no significant events subsequent to the end of the year under review.

A11. Changes in Composition of the Group

There were no changes in the composition of the Group during the year under review.

A12. Contingent Liabilities

The contingent liabilities of the Group as at 31 December 2009 are as follows:-

	31.12.09	**31.12.08**
	RM'000	**RM'000**
Bank guarantees given to third party in respect of performance guarantee given by subsidiaries	90,302	91,666

A13. Capital and Operating Lease Commitments

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

	31.12.09 RM'000	30.12.08 RM'000
Approved and contracted for		
- Property, plant and equipment	618	22,095
- Development costs	2,200	10
	2,818	22,105
Approved but not contracted for		
- Property, plant and equipment	13,285	16,528
- Development costs	12,287	14,783
	25,572	31,311
Total	28,390	53,416

(b) The Group has entered into non-cancellable operating lease agreements for property, plant and equipment. Commitments for future minimum lease payments as at 31 December 2009 are as follows:

	RM'000
Later than 1 year	739
Later than 2 years and not later than 5 years	2,079
Later than 5 years	1,888
Total	4,706

A14. Significant related party transactions

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

	3-month ended 31.12.09 RM'000	YTD 12-month ended 31.12.09 RM'000
Transactions with holding company		
- management fee charged	286	1,128
Transactions with a company connected to a Director		
- purchase of airline ticketing services	915	2,225

Save as disclosed above, there was no other significant related party transaction in the year under review.

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

B1. Review of Performance

Current quarter ended 31 December 2009

The Group recorded revenue of RM137.4 million for the current quarter against RM114.1 million in the corresponding quarter of 2008, representing an increase of 20%. The Logistics Engineering Division registered higher revenue recognition from its Rail unit with its ongoing Mumbai monorail project, partly set off by lower connector sales from the Machine Shop in the Energy Engineering Division.

The Group turned around from a loss of RM9.3 million in the 4th quarter of 2008 to a net profit of RM12.0 million for the current quarter. The improved position was mainly due to strong contributions from the Logistics Engineering Division.

Year to date ended 31 December 2009

For the year ended 31 December 2009, revenue for the Group increased 24% to RM537.6 million and net profit improved significantly to RM60.9 million from RM12.4 million in the previous year mainly due to contribution from its Rail unit with commencement of the Mumbai monorail project.

B2. Results against Immediate Preceding Quarter

The Group recorded higher revenue for the current quarter of RM137.4 million compared to RM122.3 million in the immediate preceding quarter, an increase of 12% due primarily to higher revenue recognition from its ongoing Rail projects whilst its Machine Shop unit registered lower connector sales.

Net profit for the current quarter was however only marginally higher at RM12.0 million against RM11.9 million in the immediate preceding quarter mainly due to lower contract margins from the Machine Shop business.

B3. Current year prospects

The recent global economic downturn which led to shrinking drilling activities in the oil and gas sector, had affected the Energy Engineering business during the year. International oil majors and large independents have been controlling their capital expenditure. Moving forward, as global oil prices stabilizes, there is anticipated improvement in the overall drilling activities as the National Oil Companies starts their investments given that the cost of drilling has declined substantially. The Energy Engineering business is anticipated to benefit from the higher drilling activity in the Asia-Pacific region with the new machine shop facility in Saudi, expansion of existing facility in Indonesia and relocation of Australia and Thailand machine shops to bigger and enhanced facilities. The Energy Engineering business is investing in research and development of new connectors in an effort to expand the market coverage in the casings and connectors market.

B3. Current year prospects (continued)

For Logistics Engineering business, contribution from the existing Mumbai monorail project is anticipated to lead the performance of the Group in 2010.

Moving forward, the Group is marketing its monorail system as the preferred public transportation solution in increasingly congested cities such as Mumbai, Bangalore and New Delhi in India, as well as Sao Paolo and Rio in Brazil. The Group sees Brazil as a potential second core market to India as there are few potentially big monorail projects in Sao Paolo, after Brazil recently secured the rights to host the 2014 World Cup and 2016 Olympics.

Apart from Brazil, the Group has made aggressive inroads with high level marketing efforts in the key emerging markets of the Gulf States to pursue opportunities in monorail projects as the preferred public transportation solutions to urban centre congestion.

B4. Profit Forecast or Profit Guarantee

The Group has not provided any profit forecast or profit guarantee.

B5. Income Tax Expense

	3-month ended		**YTD 12-month ended**	
	31.12.09	31.12.08	31.12.09	31.12.08
	RM'000	RM'000	RM'000	RM'000
Current tax				
Malaysian income tax	(333)	(2,173)	112	59
Foreign tax	3,341	1,340	9,269	5,530
Total tax expense	3,008	(833)	9,381	5,589
(Over)/Under provision of tax	(134)	1,761	(149)	966
	2,874	928	9,232	6,555
Deferred tax	(1,211)	(2,186)	1,558	(3,181)
Total income tax expense	1,663	(1,258)	10,790	3,374

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 lower effective tax rate of 15% (2008: 21%) for the year under review is mainly due to the effect of utilisation of unabsorbed capital allowance and tax losses of certain subsidiaries and the lower income tax rate of 17% (2008: 18%) applicable to a major subsidiary in Singapore.

B6. Unquoted Investments and Properties

There were no sales of unquoted investments and properties during the year under review.

B7. Quoted and Marketable Investments

There were no purchases or disposals of quoted securities during the year under review. Investments in quoted securities as at 31 December 2009 are as follows:

Non-current assets	**30.12.09 RM'000**	**31.12.08 RM'000**
Quoted shares		
- at cost	2,594	2,594
- at carrying/book value	207	207
- at market value	207	207
Unquoted shares	542	542
Current assets		
Investment in a money market fund		
- at cost	-	1,500
- at market value	-	1,500

B8. Status of Corporate Proposal

On 27 August 2009, Maybank Investment Bank Berhad ("Maybank IB"), on behalf of the Company announced that Scomi Engineering Bhd ("SEB") proposed to undertake a renounceable rights issue of up to RM68,280,948 nominal value of 3-year 4% irredeemable convertible unsecured loan stock ("ICULS") at 100% of its nominal value on the basis of two (2) RM1.00 nominal value of ICULS for every nine (9) existing ordinary shares of RM1.00 each held in SEB ("Proposed Rights Issue").

The Company has obtained the necessary approval from Securities Commission and Bursa Securities Malaysia Berhad on 30 October 2009 and 6 January 2010 respectively in relation to the Proposed Rights Issue.

The Proposed Rights Issue was approved by shareholders of the Company on 26 January 2010 and is expected to be completed in the first quarter of the financial year ending 31 December 2010.

B9. Group Borrowings - Secured

The group borrowings which include hire purchase creditors are as follows:

	31.12.09 RM'000	**31.12.08 RM'000**
Secured		
Short term borrowings	158,361	71,865
Long term borrowings	33,280	33,353
Total group borrowings	191,641	105,218

B9. Group Borrowings – Secured (continued)

Group Borrowings are denominated in the following currencies:

	31.12.09 RM'000 equivalent	31.12.08 RM'000 equivalent
Ringgit Malaysia	158,377	88,034
US Dollar	6,126	17,038
Singapore Dollar	-	146
Indian Rupees	27,138	-
Total group borrowings	191,641	105,218

B10. Off Balance Sheet Financial Instruments

Forward foreign exchange contracts are entered into by the Group in currencies other than the functional currency to manage exposure to fluctuations in foreign currency exchange rates on specific transactions.

All exchange gains and losses relating to hedge instruments are recognised in the income statement in the same year the forward foreign exchange contract is settled.

As at 19 February 2010, the amounts of forward foreign exchange contracts that were entered into as hedges for payables were equivalent to RM27.3 million. This amount represents the future cash flows under contracts to purchase the foreign currencies. The maturity periods of these forward contracts are less than six (6) months.

B11. Changes in Material Litigation

Neither the Company, nor any of its subsidiaries, is engaged in any litigation or arbitration, either as a plaintiff or defendant, which has a material 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 proceedings, which might materially and adversely affect the financial position or business of the Company or any of its subsidiaries.

B12. Dividend Declared

The Board of Directors has recommended the payment of an interim tax exempt dividend of 5% per share (2008: Nil) in respect of the financial year ended 31 December 2009 to the shareholders of the Company who are on the Record of Depositors at an entitlement date to be determined.

B13. Earnings per share

The computations for earnings per share are as follows:

	3-month ended		YTD 12-month ended	
	31.12.09	31.12.08	31.12.09	31.12.08
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) from continuing operations attributable to ordinary equity holders of the Company	12,126	(8,973)	60,941	13,097
Loss from discontinued operations attributable to ordinary equity holders of the Company	-	-	-	(662)
Profit / (Loss) attributable to ordinary equity holder of the Company	12,126	(8,973)	60,941	12,435
Weighted average number of shares in issue ('000)	275,781	274,872	275,689	275,566
Adjustment for:				
- share options ('000)	1,052	-	1,052	-
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	276,833	274,872	276,741	275,566
(a) Basic Earnings per share (sen) for:				
Profit / (Loss) from continuing operations	4.40	(3.26)	22.10	4.75
Loss from discontinued operations	-	-	-	(0.24)
Profit / (Loss) for the year	4.40	(3.26)	22.10	4.51
(b) Diluted earnings per share (sen) for:				
Profit from continuing operations	4.38	-	22.02	-
Loss from discontinued operations	-	-	-	-
Profit for the year	4.38	-	22.02	-

For the year ended 31 December 2008, there was no dilution in the earnings per share of the Company. The market price of the Company's ordinary shares as at 31 December 2008 was anti-dilutive since the market price was lower than the exercise price.

B14. Authorisation for Issue

The interim financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2010.