

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 prepared in accordance with the requirements of the Financial Reporting Standards ("FRSs") 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 2009.

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 2009, except for the adoption of the following new FRSs, Amendments to FRSs and Interpretations with effect from 1 January 2010. Certain comparative amounts have been reclassified to conform to the current year's presentation.

On 1 January 2010, the Group adopted the following:

FRSs, Amendments to FRSs and Interpretations

FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101 (revised)	Presentation of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 1	First-time Adoption of Financial Reporting Standards
Amendment to FRS 2	Share-based Payment: Vesting Conditions and Cancellations
Amendment to FRS 7	Financial Instruments: Disclosures
Amendment to FRS 8	Operating Segments
Amendment to FRS 107	Statement of Cash Flows
Amendment to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendment to FRS 110	Events After the Reporting Period
Amendment to FRS 116	Property, Plant and Equipment
Amendment to FRS 117	Lease
Amendment to FRS 118	Revenue
Amendment to FRS 119	Employee Benefits
Amendment to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
Amendment to FRS 123	Borrowing Costs
Amendment to FRS 127	Consolidated and Separate Financial Statements
Amendment to FRS 128	Investments in Associates
Amendment to FRS 131	Interest in Joint Ventures
Amendment to FRS 132	Financial Instruments: Presentation
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 136	Impairment of Assets

A1. Basis of Preparation of Interim Financial Reports (cont'd)

FRSs, Amendments to FRSs and Interpretations (cont'd)

Amendment to FRS 138	Intangible Assets
Amendment to FRS 139	Financial Instruments: Recognition and Measurement
Amendment 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 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

Other than for the application of FRS 101 (revised), FRS 139 and Amendment to FRS 117, the application of the above FRSs, Amendments to FRSs and Interpretations did not result in any significant changes in the accounting policies and presentations of the financial results of the Group.

FRS 101 (revised): Presentation of Financial Statements

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity will now include only detail of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the statement of comprehensive income. The adoption of this standard does not have any impact on the financial position and results of the Group.

Amendment to FRS 117: Leases

Prior to the adoption of the Amendment to FRS 117, leasehold lands were treated as operating leases. The considerations paid were classified and presented as prepaid lease payment on the statement of financial position. With the adoption of the Amendment to FRS 117, the classification of a leasehold land as a finance lease or an operating lease is based on the extent to which risks and rewards incident to ownership lie.

Accordingly, the Group has applied the change in accounting policy and changed the classification of long leasehold lands (unexpired period more than 50 years) from operating leases to finance leases in the current quarter. This change in classification has no effect to the profit or loss of the current period ended 31 March 2010 or the comparative prior period. The effect of the reclassification to the comparative of the prior year's statement of financial position is as follows:

	As previously stated (RM'000)	Effect on adoption of FRS 117 (RM'000)	As restated (RM'000)
Balance Sheet <u>As at 31 December 2009</u>			
Prepaid land lease payments	5,271	(3,360)	2,361
Property, plant and equipment	<u>151,515</u>	3,360	154,875

A1. Basis of Preparation of Interim Financial Reports (cont'd)

FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 sets out the new requirements for the recognition and measurement of the Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the balance sheet date reflects the designation of the financial instruments. The Group determines the classification at initial recognition and for the purpose of the first adoption of the standard, as at transitional date on 1 January 2010.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group's financial assets include cash and short-term deposits, loans and receivables and available-for-sale (AFS) investments.

(i) **Loan and receivables**

Prior to 1 January 2010, loans and receivables were stated at gross receivables less provision for doubtful debts. Under FRS 139, loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate (EIR) method. Gains and losses arising from the derecognition of the loans and receivables, EIR amortisation and impairment losses are recognised in income statement.

(ii) **AFS investment**

Prior to 1 January 2010, AFS financial assets such as investments were accounted for at cost adjusted for amortisation of premium and accretion of discount less impairment or at the lower of cost and market value, determined on an aggregate basis. Under FRS 139, AFS financial assets is measured at fair value initially and subsequently with amortisation of premium with accretion of discount and other accrual of income recognised in statement of comprehensive income and with unrealised gains or losses recognised in statement of other comprehensive income and removed from AFS reserve.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group's financial liabilities include trade and other payables carried at amortised cost and financial liabilities at fair value.

A1. Basis of Preparation of Interim Financial Reports (cont'd)

FRS 139: Financial Instruments: Recognition and Measurement (cont'd)

Impact on opening balances

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 are not restated. Instead, the changes have been accounted for by restating the opening balance of retained earnings as at 1 January 2010.

Statement of Changes in Equity <u>As at 31 December 2009</u>	RM'000
Retained earnings, as previously stated	118,996
Effect arising from adoption of FRS 139	(262)
Retained earnings, as restated	<u>118,734</u>

A2. Qualification of Financial Statements

The financial statements for the year ended 31 December 2009 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 period under review.

A4. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the period under review.

A5. Material Changes in Estimates

There were no material changes in estimates reported in the period 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 period ended 31 March 2010, the issued and paid-up share capital of the Company increased from 276,180,067 ordinary shares of RM1.00 each to 276,212,067 ordinary shares of RM1.00 each by the issuance of 32,000 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.

A6. Issuance and Repayment of Debt and Equity Securities (cont'd)

(b) Treasury Shares

During the period ended 31 March 2010, the Treasury Shares of the Company increased from 119,800 to 120,800 with the repurchase of 1,000 of its issued ordinary shares of RM1.00 each from the open market at a price of RM1.07 per share. The total consideration paid for the repurchase including transaction costs was RM1,112 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

An interim tax exempt dividend of 5 sen per share in respect of the financial year ended 31 December 2009 amounting RM13,861,624 was paid on 10 May 2010.

A8. Segmental Information

	3-month ended		YTD 3-month ended	
	31.3.10	31.3.09	31.3.10	31.3.09
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Revenue from continuing operations				
- Logistics Engineering	103,556	77,191	103,556	77,191
Revenue from discontinued operations				
- Energy Engineering	25,367	49,581	25,367	49,581
Total	128,923	126,772	128,923	126,772
Segment Results				
Results from continuing operations				
- Logistics Engineering	6,873	9,268	6,873	9,268
Results from discontinued operations				
- Energy Engineering	2,995	7,829	2,995	7,829
Total results	9,868	17,097	9,868	17,097
Corporate expenses	(1,804)	657	(1,804)	657
Total	8,064	17,754	8,064	17,754

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 Period

Other than as disclosed in Note B8 to the interim financial statements, there were no significant events subsequent to the end of the period under review.

A11. Changes in Composition of the Group

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

A12. Contingent Liabilities

The contingent liabilities of the Group as at 31 March 2010 are as follows:-

	31.3.10 RM'000	31.12.09 RM'000
Bank guarantees given to third party in respect of performance guarantee given by subsidiaries	<u>90,421</u>	<u>90,302</u>

A13. Capital and Operating Lease Commitments

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

	31.3.10 RM'000	31.12.09 RM'000
Approved and contracted for		
- Property, plant and equipment	390	618
- Development costs	4	2,342
	394	2,960
Approved but not contracted for		
- Property, plant and equipment	48,659	14,489
- Development costs	25,315	13,703
	73,974	28,192
Total	<u>74,368</u>	<u>31,152</u>

(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 March 2010 are as follows:

	RM'000
Not later than 1 year	1,110
Later than 1 year and not later than 5 years	2,902
Later than 5 years	1,690
Total	<u>5,702</u>

A14. Significant Related Party Transactions

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

	3-month ended 31.3.10 RM'000	YTD 3-month ended 31.3.10 RM'000
Transactions with holding company		
- management fee charged	423	423
Transactions with a company connected to a Director		
- purchase of airline ticketing services	1,298	1,298

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 than those with independent third parties.

A15. Disposal Group Classified as Held For Sale

On 18 May 2010, the Company entered into a conditional share sale agreement to dispose its subsidiary companies, Scomi OMS Oilfield Holdings Sdn Bhd and Scomi OMS Oilfield Services Pte Ltd (collectively known as the Machine Shop group). This disposal is expected to be completed by the third quarter of 2010, detail as further disclosed in Note B8 (i).

As at 31 March 2010, the assets and liabilities of the Machine Shop group have been presented on the consolidated statement of financial position as a disposal group held for sale and the results of this subsidiary group are presented separately on the consolidated statement of comprehensive income as discontinued operations.

Detail results of the discontinued operations is as follows:

	3-month ended		YTD 3-month ended	
	31.3.10 RM'000	31.3.09 RM'000	31.3.10 RM'000	31.3.09 RM'000
Revenue	25,367	49,581	25,367	49,581
Expenses	(21,209)	(39,808)	(21,209)	(39,808)
Profit before tax	4,159	9,773	4,159	9,773
Taxation	(1,164)	(1,944)	(1,164)	(1,944)
Profit after Tax	<u>2,995</u>	<u>7,829</u>	<u>2,995</u>	<u>7,829</u>

A15. Disposal Group Classified as Held For Sale (cont'd)

The major classes of assets and liabilities of the Machine Shop group classified as held for sale are as follow:

	31.3.10 RM'000
Assets of disposal group classified as held for sale	
Property, plant & equipment	84,022
Intangible assets	184,018
Prepaid land lease payments	2,248
Available-for-sale investments	542
Inventory	11,307
Receivables	38,638
Deposits with licensed banks	258
Cash and bank balances	8,126
Other assets	911
	<u>330,070</u>
Liabilities classified as held for sale	
Payables	17,504
Borrowings (interest bearing)	19,429
Other liabilities	5,239
	<u>42,173</u>
Total net assets of disposal group	<u><u>287,897</u></u>

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

B1. Review of Performance for the Quarter

The Group recorded revenue of RM128.9 million for the current quarter against RM126.8 million in the corresponding quarter of 2009, an increase of 2%. Higher revenue recognition was recorded in its Rail unit from the ongoing Mumbai monorail project, partly set off by lower sales from the Machine Shop unit.

Net profit for the current quarter was however lower at RM8.1 million compared to RM17.8 million, a decrease of 55% mainly due to lower contribution margin, lower profits for Machine Shop unit from lower sales and higher tax expenses from foreign operations.

B2. Results against Preceding Quarter

The Group recorded lower revenue for the current quarter of RM128.9 million compared to RM137.5 million in the preceding quarter, a decline of 6% due primarily to lower Machine Shop sales.

Net profit for the current quarter was lower at RM8.1 million against RM12.0 million in the preceding quarter mainly due to lower profits from Machine Shop unit and higher tax expense.

B3. Current Year Prospects

The outlook for the Group in 2010 is expected to be challenging due to the gestation period of infrastructure projects. Contribution from the Rail unit is anticipated to lead the performance of the Group in 2010 as the Group anticipates that the core business driver moving forward will be in the public transportation sector.

The Group will continuously pursue opportunities in monorail projects especially in Brazil and India to establish global presence in this sector and capitalize on the increasing demand and opportunities for global infrastructure development to these countries.

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 3-month ended	
	31.3.10 RM'000	31.3.09 RM'000	31.3.10 RM'000	31.3.09 RM'000
Continuing operations				
Current tax				
Malaysian income tax	-	204	-	204
Foreign tax	1,468	-	1,468	-
	<u>1,468</u>	<u>204</u>	<u>1,468</u>	<u>204</u>
Deferred tax	595	-	595	-
	<u>2,063</u>	<u>204</u>	<u>2,063</u>	<u>204</u>
Discontinued operations				
Current tax				
Malaysian income tax	128	138	128	138
Foreign tax	736	1,806	736	1,806
	<u>864</u>	<u>1,944</u>	<u>864</u>	<u>1,944</u>
Deferred tax	300	-	300	-
	<u>1,164</u>	<u>1,944</u>	<u>1,164</u>	<u>1,944</u>
Total income tax expense	<u>3,227</u>	<u>2,148</u>	<u>3,227</u>	<u>2,148</u>

Domestic current income tax is calculated at the statutory tax rate of 25% (2009: 25%) of the taxable profit for the period. Taxation for the other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The higher effective tax rate of 29% (2009: 11%) for the current quarter was mainly due to higher income tax rate applicable to foreign subsidiaries.

B6. Unquoted Investments and Properties

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

B7. Available-For-Sale Investments

There were no purchases or disposals of quoted securities during the period under review. Investments in quoted securities as at 31 March 2010 are as follows:

	31.3.10 RM'000	31.12.09 RM'000
Non-current assets		
Quoted shares		
- at cost	2,594	2,594
- at carrying/book value	189	207
- at market value	189	207
	<u>542</u>	<u>542</u>
Unquoted shares of disposal group classified as held for sale	<u>542</u>	<u>542</u>

B8. Status of Corporate Proposal

- (i) On 18 May 2010, Hong Leong Investment Bank Berhad, on behalf of the Company announced that the Company has entered into a conditional share sale agreement ("SSA") with OMS Holdings Pte Ltd, a wholly-owned subsidiary of Sumitomo Corporation Asia Pte Ltd ("Purchaser") for the sale of the Company's entire machine shop business of Scomi OMS Oilfield Holdings Sdn Bhd and Scomi OMS Oilfield Services Pte Ltd, both wholly-owned subsidiaries of the Company ("Machine Shop group"), for a total cash consideration of approximately USD101.45 million (subject to adjustments, if any) ("Proposed Sale").

The sale consideration of approximately USD101.45 million (subject to adjustments, if any) ("Consideration") is payable as follows:

- (a) USD8.80 million, representing approximately 8.67% of the Consideration, has been paid upon signing of the SSA; and
- (b) On completion, the balance amounting to USD92.65 million representing 91.33% of the Consideration shall be paid, of which an amount of USD5.50 million will be set aside into an escrow account and held there for a period of up to 6 months.

The completion of the SSA is conditional upon the following conditions being satisfied on or before 45 days following the date of the SSA (or such later date as the parties may agree):

- (a) Approval of shareholders of the Company in a general meeting to the Proposed Sale;
- (b) Written confirmation from various contractual parties of the machine shop business that have a right to terminate their agreements with the machine shop business, will not exercise their respective rights to terminate their contractual relationships with the machine shop business as a result of the Proposed Sale; and
- (c) The Company delivering to the Purchaser the machine shop subsidiaries' audited financial reports and consolidated accounts of the Machine Shop group.

The Proposed Sale is expected to be completed by the third quarter of 2010.

- (ii) 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 relevant authorities and the Right Issue was approved by shareholders of the Company on 26 January 2010.

On 23 March 2010, the Company completed the Right Issue with the listing and quotation for RM61,352,936 ICULS on the Main Market of Bursa Malaysia Securities Berhad.

B9. Group Borrowings - Secured

The group borrowings which include ICULS are as follows:

	31.3.10 RM'000	31.12.09 RM'000
<u>Secured</u>		
Short term borrowings	150,691	134,217
Long term borrowings	55,348	59,508
	<hr/> 206,039	<hr/> 193,725
Borrowings of disposal group classified as held for sale	19,429	-
	<hr/> 225,468	<hr/> 193,725

Group Borrowings are denominated in the following currencies:

	31.3.10 RM'000 equivalent	31.12.09 RM'000 equivalent
Ringgit Malaysia	181,877	160,462
US Dollar	5,630	6,125
Indian Rupee	37,961	27,138
Total group borrowings	<hr/> 225,468	<hr/> 193,725

B10. Derivative 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.

Forward foreign exchange contracts are recognised on the contract dates and are measured at fair value with changes in fair value are recognised in profit or loss.

The outstanding forward foreign exchange contracts as at 31 March 2010 are as follows:-

Type of Derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Forward foreign exchange contracts		
- Not later than 1 year	25,255	24,240
	<hr/>	<hr/>

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. Proposed Dividend

No interim dividend has been declared for the period under review.

B13. Earnings per share

The computations for earnings per share are as follows:

	3-month ended		YTD 3-month ended	
	31.3.10 RM'000	31.3.09 RM'000	31.3.10 RM'000	31.3.09 RM'000
Profit from continuing operations attributable to owners of the Company	5,069	9,925	5,069	9,925
Profit from discontinued operations attributable to owners of the Company	2,995	7,829	2,995	7,829
Profit attributable to owners of the Company	<u>8,064</u>	<u>17,754</u>	<u>8,064</u>	<u>17,754</u>

(a) Basic earnings per share

Weighted average number of shares in issue and conversion of potential ordinary shares from the mandatory convertible instrument of ICULS ('000)	281,594	275,576	281,594	275,576
<u>Basic earnings per share for:</u>				
Profit from continuing operations	1.80	3.59	1.80	3.59
Profit from discontinued operations	1.06	2.84	1.06	2.84
Profit for the period	<u>2.86</u>	<u>6.43</u>	<u>2.86</u>	<u>6.43</u>

(b) Diluted earnings per share

Weighted average number of shares in issue and conversion of potential ordinary shares from the mandatory convertible instrument of ICULS ('000)	281,594	275,576	281,594	275,576
<u>Adjustment for:</u>				
- share options ('000)	3,710	-	3,710	-
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>285,304</u>	<u>275,576</u>	<u>285,304</u>	<u>275,576</u>
<u>Diluted earnings per share for:</u>				
Profit from continuing operations	1.78	-	1.78	-
Profit from discontinued operations	1.05	-	1.05	-
Profit for the period	<u>2.83</u>	<u>-</u>	<u>2.83</u>	<u>-</u>

There was no dilution in the earnings per share of the Company in 2009 as the market price of the Company's ordinary shares as at the end of reporting period 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 by the Board of Directors in accordance with a resolution of the Directors on 19 May 2010.