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	Leases
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:

Balance Sheet As at 31 December 2009	As previously stated (RM'000)	Effect on adoption of FRS 117 (RM'000)	As restated (RM'000)
Prepaid land lease payments	5,721	(3,360)	2,361
Property, plant and equipment	151,515	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 As at 31 December 2009	RM'000
Retained earnings, as previously stated	118,996
Effect arising from adoption of FRS 139	(484)
Retained earnings, as restated	118,512

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 and Extraordinary Items

For the current period under review, the Group's financials included the effect of the disposal of its Machine Shop Business. Save as disclosed above, there were no other unusual and/or extraordinary items affecting assets, liabilities, equity, net income or cash flows during the period under review.

A5. Material Changes in Estimates

Other than as disclosed in Note B1, there were no other 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 issuances, cancellations, share buy-backs, resale of shares bought back and repayment of debt and equity securities by the Company:-

(a) Share Capital

During the period ended 30 September 2010, the issued and paid-up share capital of the Company increased from 276,180,067 ordinary shares of RM1.00 each to 285,923,224 ordinary shares of RM1.00 each by the issuance of:

(i) 4,546,500 new ordinary shares of RM1.00 each pursuant to the exercise of options granted under the Employee Share Options Scheme ("ESOS") of the Company at an option price of RM1.00 per ordinary share; and

(ii) 5,196,657 new ordinary shares of RM1.00 each pursuant to the conversion of Irredeemable Convertible Unsecured Loan Stock ("ICULS").

(b) Treasury Shares

During the period ended 30 September 2010, the Treasury Shares of the Company increased from 119,800 to 121,800 with the repurchase of 2,000 of its issued ordinary shares of RM1.00 each from the open market at an average price of RM1.157 per share. The total consideration paid for the repurchase including transaction costs was RM2,314 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, details of which are as follows:-

Date	No. of Treasury Shares Purchased	Highest Price (RM)	Lowest Price (RM)	Average Price (RM)	Total Cost (RM)
March 2010	1,000	1.070	1.070	1.070	1,112
August 2010	1,000	1.160	1.160	1.160	1,202
Total	2,000				2,314

A7. Dividends Paid

During the period under review, the Company has made the following dividend payment:

	RM
In respect of financial year ended 31 December 2009:	
- An interim tax exempt dividend of 5 sen per ordinary share, paid on 10 May 2010	13,861,624
In respect of financial year ending 31 December 2010:	
- An interim dividend of 6.0 sen per ordinary share (gross) less 25% income tax	12,848,432
- An interim tax exempt dividend of 9.5 sen per ordinary share	27,124,469
- An interim single tier exempt dividend of 14.0 sen per ordinary share	39,972,902
Total gross special interim dividend of 29.5 sen per ordinary share, paid on 26 August 2010	79,945,803
Total dividends paid	93,807,427

A8. Segmental Information

	3-month ended		YTD 9-month ended	
	30.9.10	30.9.09	30.9.10	30.9.09
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Revenue from continuing operations				
- Transport Solutions	77,208	78,644	242,757	251,631
Revenue from discontinued operations				
- Energy Engineering	-	43,616	50,801	148,570
Total	**77,208**	**122,260**	**293,558**	**400,201**
Segment Results				
Results from continuing operations				
- Transport Solutions	5,988	5,917	(4,053)	27,280
Results from discontinued operations				
- Energy Engineering	-	6,417	2,506	22,890
Total results	5,988	12,334	(1,547)	50,170
Corporate expenses	(4,643)	(442)	(8,690)	(1,258)
Gain on disposal of subsidiaries	-	-	22,330	-
Total	**1,345**	**11,892**	**12,093**	**48,912**

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 (ii), there were no significant events subsequent to the end of the period under review.

A11. Changes in Composition of the Group

(i) 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 was completed on 30 June 2010, detail as further disclosed in Note B8 (ii).

A11. Changes in Composition of the Group (cont'd)

(i) As at 30 Sept 2010, the results of Machine Shop group are presented separately on the consolidated statement of comprehensive income as discontinued operations and the details are as follow:

	3-month ended		YTD 9-month ended	
	30.9.10	**30.9.09**	**30.9.10**	**30.9.09**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	-	43,616	50,801	148,570
Expenses	-	(35,736)	(46,214)	(120,355)
Profit before tax	-	7,880	4,587	28,215
Taxation	-	(1,463)	(2,081)	(5,325)
Profit after tax	-	6,417	2,506	22,890

The disposal had the following effects on the Group's assets and liabilities as at 30 Sept 2010.

	30.09.10
	RM'000
Non-current assets	270,525
Current assets	87,486
Current liabilities	(51,906)
Borrowings	(26,825)
Net assets disposed	279,280
Provisional gain on disposal	22,330
Net consideration *	301,610
Overdraft, net of cash disposed of	2,105
Net cash inflow	303,715

* Final sales consideration is subject to post completion reconciliations as disclosed in Note B8 (ii)

(ii) On 19 July 2010, the Company incorporated a wholly owned subsidiary company, Scomi Transit Projects Sdn Bhd ("STP"), with an authorized capital of RM1,000,000 and paid-up capital of RM100,000. The intended business activity of STP is to engage in the business development, manufacture and supply of monorail transportation infrastructure systems equipment and services.

A12. Contingent Liabilities

The contingent liabilities of the Group as at 30 September 2010 are as follows:-

	30.9.10	**31.12.09**
	RM'000	**RM'000**
Bank guarantees given to third party in respect of performance guarantee given by subsidiaries	89,639	90,302

A13. Capital and Operating Lease Commitments

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

	30.9.10 RM'000	31.12.09 RM'000
Approved and contracted for		
- Property, plant and equipment	-	618
- Development costs	-	2,342
	-	2,960
Approved but not contracted for		
- Property, plant and equipment	29,804	14,489
- Development costs	10,172	13,703
	39,976	28,192
Total	39,976	31,152

(b) There was no non-cancellable operating lease agreement for property, plant and equipment as at 30 September 2010.

A14. Significant Related Party Transactions

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

	3-month ended 30.9.10 RM'000	YTD 9-month ended 30.9.10 RM'000
Transactions with holding company		
- management fee charged	418	1,259
Transactions with a company connected to a Director		
- purchase of airline ticketing services	327	1,850

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.

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

B1. Review of Performance for the Quarter

The Group recorded lower revenue of RM77.2 million for the current quarter against RM78.6 million (excluding discontinued operations) in the corresponding quarter of 2009 mainly due to lower Coach sales, partly offset by higher revenue from the Rail Division.

Net profit for the current quarter of RM1.3 million was lower compared to the net profit of RM11.9 million in the corresponding quarter of 2009 mainly due to the effect of nil contribution from discontinued operations relating to the machine shop disposal in June 2010, foreign exchange losses from the weaker US Dollar and slowdown in the monorail project activities.

For the period ended 30 September 2010, the Group recorded lower revenue of RM242.8 million (excluding discontinued operations) as compared to RM251.6 million in the corresponding period mainly due to lower Coach sales and lower revenue from the Rail Division.

Net profit of RM12.1 million for the period ended 30 September 2010 included a provisional gain on disposal of the machine shop business of RM22.3 million. Excluding the provisional gain on disposal, the Group recorded a net loss of RM10.2 million as compared to a net profit of RM48.9 million in the corresponding period in 2009. This was mainly due to lower/nil contribution from discontinued operations relating to the machine shop disposal in June 2010, slowdown in the monorail project activities, lower margin from the Rail Division arising from project cost revision and foreign exchange losses from the weaker USD Dollar.

B2. Results against Preceding Quarter

The Group recorded higher revenue for the current quarter of RM77.2 million compared to RM62.0 million in the preceding quarter primarily due to higher revenue from the Rail Division.

The Group recorded a net profit of RM1.3 million for the current quarter as opposed to a net loss of RM19.6 million (excluding the provisional gain on disposal of the machine shop business) in the preceding quarter. The improvement was mainly due to lower margin in the preceding quarter from the Rail Division arising from project cost revision.

B3. Current Year Prospects

The Group will continuously pursue opportunities in monorail projects especially in Malaysia, Brazil and India to capitalize on the increasing demand and opportunities for infrastructure development in these countries. The Group continues to focus on project execution and implement measures to reduce cost and increase efficiency.

The outlook for the Group for the remainder of 2010 remains challenging.

B4. Profit Forecast or Profit Guarantee

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

B5. Income Tax Expense/(Credit)

	3-month ended		YTD 9-month ended	
	30.9.10	30.9.09	30.9.10	30.9.09
	RM'000	RM'000	RM'000	RM'000
Continuing operations				
Current tax				
Malaysian income tax	184	(122)	283	45
Foreign tax	3,336	(1,078)	3,336	1,283
	3,520	(1,200)	3,619	1,328
(Over)/Under provision of tax	(510)	31	(510)	(14)
	3,010	(1,169)	3,109	1,314
Deferred tax	(177)	(3,333)	(221)	2,487
	2,833	(4,502)	2,888	3,801
Discontinued operations				
Current tax				
Malaysian income tax	-	130	255	400
Foreign tax	-	733	1,337	4,644
	-	863	1,592	5,044
Deferred tax	-	600	489	281
	-	1,463	2,081	5,325
Total income tax expense/(credit)	2,833	(3,039)	4,969	9,126

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 effective tax rate for the continuing operation was marginally lower at 23% (2009: 16%) for the period due to losses attributable from subsidiaries and gain on disposal of the machine shop business which was not subject to tax.

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 30 September 2010 are as follows:

	30.9.10 RM'000	31.12.09 RM'000
Non-current assets		
Quoted shares		
- at cost	2,594	2,594
- at carrying/book value	150	207
- at market value	150	207
Unquoted shares	542	542

B8. Status of Corporate Proposal

(i) 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.

The status of utilisation of proceeds raised from the ICULS is as follows:

	Proposed Utilisation RM'000	Actual Utilisation RM'000
Working Capital to the Group	60,553	60,841
Expenses in relation to the rights issue	800	512
	61,353	61,353

(ii) On 18 May 2010, the Company had 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 Machine Shop group, for a total cash consideration of approximately USD101.45 million.

Approval of shareholders of the Company was obtained in a general meeting on 28 June 2010.

The disposal of the Machine Shop group was completed on 30 June 2010 with all conditions precedent in the SSA being met. On 9 November 2010, the final sales consideration was determined at USD96.706 million after finalization of the earnings adjustment and post-completion reconciliation of the actual debt, cash, tax and working capital of the machine shop group on completion date (as provided in Schedule 4 of the SSA).

B9. Group Borrowings - Secured

The group borrowings which included ICULS are as follows:

	30.9.10 RM'000	**31.12.09 RM'000**
<u>Secured</u>		
Short term borrowings	145,229	134,217
Long term borrowings	52,931	59,508
Total group borrowings	198,160	193,725

Group Borrowings are denominated in the following currencies:

	30.6.10 RM'000 equivalent	**31.12.09 RM'000 equivalent**
Ringgit Malaysia	160,768	160,462
US Dollar	-	6,125
Indian Rupee	37,392	27,138
Total group borrowings	198,160	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 contract as at 30 September 2010 is as follows:-

Type of Derivatives	Contract/ Notional Value RM'000	Fair Value RM'000	Gain RM'000
Forward foreign exchange contracts			
- Not later than 1 year	521	552	31

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

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

B13. Earnings Per Share

The computations for earnings per share are as follows:

	3-month ended		YTD 9-month ended	
	30.9.10	30.9.09	30.9.10	30.9.09
	RM'000	RM'000	RM'000	RM'000
Profit from continuing operations attributable to owners of the Company	1,345	5,475	9,587	26,022
Profit from discontinued operations attributable to owners of the Company	-	6,416	2,776	22,793
Profit attributable to owners of the Company	1,345	11,891	12,363	48,815
(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)	340,768	275,575	320,334	275,575
Basic earnings per share for:				
Profit from continuing operations	0.39	1.99	2.99	9.44
Profit from discontinued operations	-	2.33	0.87	8.27
Profit for the period	0.39	4.32	3.86	17.71
(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)	340,768	275,575	320,334	275,575
Adjustment for:				
- share options ('000)	1,879	1,821	1,879	1,796
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	342,647	277,396	322,213	277,371
Diluted earnings per share for:				
Profit from continuing operations	0.39	1.97	2.98	9.38
Profit from discontinued operations	-	2.31	0.86	8.22
Profit for the period	0.39	4.28	3.84	17.60

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 26 November 2010.