

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(h) Property, plant and equipment (continued)

	Long term leasehold <u>land</u> RM	Long term leasehold <u>buildings</u> RM	Office equipment, furniture & fittings & <u>renovations</u> RM	Plant, machinery, other equipment and motor <u>vehicles</u> RM	<u>Total</u> RM
<u>Year ended</u>					
<u>31 December 2006</u>					
<u>Net book value</u>					
At 1 January 2006 (Restated)	1,645,400	2,801,494	1,567,007	7,115,145	13,129,046
Additions	-	-	340,365	5,604,638	5,945,003
Transfer to ultimate holding company	-	-	-	(32,327)	(32,327)
Written off	-	-	-	(2,833)	(2,833)
Disposals	-	-	-	(166,742)	(166,742)
Depreciation charge	(38,601)	(124,000)	(858,606)	(2,160,940)	(3,182,147)
At 31 December 2006	<u>1,606,799</u>	<u>2,677,494</u>	<u>1,048,766</u>	<u>10,356,941</u>	<u>15,690,000</u>
<u>At 31 December 2006</u>					
Cost	1,943,285	3,329,518	7,973,527	33,778,832	47,025,162
Accumulated depreciation	(336,486)	(652,024)	(6,924,761)	(23,421,891)	(31,335,162)
Net book value	<u>1,606,799</u>	<u>2,677,494</u>	<u>1,048,766</u>	<u>10,356,941</u>	<u>15,690,000</u>
<u>At 1 January 2006 (Restated)</u>					
Cost	1,943,285	3,329,518	7,633,162	28,174,194	41,080,159
Accumulated depreciation	(297,885)	(528,024)	(6,066,155)	(21,059,049)	(27,951,113)
Net book value	<u>1,645,400</u>	<u>2,801,494</u>	<u>1,567,007</u>	<u>7,115,145</u>	<u>13,129,046</u>

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**(iv) Notes to the Historical Financial Statements (continued)**

**(h) Property, plant and equipment (continued)**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Net book value of assets pledged as security for a term loan (Note (v)):			
- plant, machinery other equipment and motor vehicles	4,086,669	3,680,314	5,231,689
- office equipment, furniture and fittings and renovation	43,460	72,840	101,765
	<u>4,130,129</u>	<u>3,753,154</u>	<u>5,333,454</u>

All property, plant and equipment of the Company have been pledged as security for banking facilities made available to the Company.

**(i) Investment properties**

	<u>Group and Company</u>		
	<u>2004</u> (Restated) RM	<u>2005</u> (Restated) RM	<u>2006</u> RM
<u>Net book value</u>			
At 1 January	1,312,638	1,155,188	1,131,613
Additions	1,178,764	-	-
Depreciation charge	(23,576)	(23,575)	(23,575)
Disposals	(1,312,638)	-	-
At 31 December	<u>1,155,188</u>	<u>1,131,613</u>	<u>1,108,038</u>
Cost	1,178,764	1,178,764	1,178,764
Accumulated depreciation	(23,576)	(47,151)	(70,726)
	<u>1,155,188</u>	<u>1,131,613</u>	<u>1,108,038</u>
Fair value of investment properties	<u>1,178,764</u>	<u>1,200,000</u>	<u>1,200,000</u>

The investment properties have been pledged as security for banking facilities as disclosed in Note (v).

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(iv) Notes to the Historical Financial Statements (continued)

(j) Dry docking expenditure

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
<u>Net book value</u>			
At 1 January	10,182,048	6,922,060	1,993,297
Disposal of subsidiary (Note (g))	-	-	(836,120)
Incurred during the financial year	-	2,453,287	-
Amortisation charge during the financial year	(3,259,988)	(2,537,048)	(1,157,177)
Written off during the financial year	-	(4,845,002)	-
	<u>6,922,060</u>	<u>1,993,297</u>	<u>-</u>
<u>At 31 December</u>			
Cost	11,911,625	14,328,915	14,328,915
Accumulated amortisation	(4,989,565)	(12,335,618)	(13,492,795)
Disposal of subsidiary (Note (g))	-	-	(836,120)
	<u>6,922,060</u>	<u>1,993,297</u>	<u>-</u>

(k) Associates

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Delcom Group's share of net assets of associates	<u>20,345,581</u>	<u>5,558,041</u>	<u>9,330,660</u>

Delcom Group's effective equity interest in the associates, their respective principal activities and country of incorporation are set out in Note (z).

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**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(k) Associates (continued)**

In relation to the Company's interests in associates, the assets, liabilities, income and expenses are shown below:

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Current assets	23,112,923	3,096,595	4,517,810
Non-current assets	18,589,004	4,438,690	9,146,056
Current liabilities	(20,943,519)	(1,615,903)	(3,517,765)
Non-current liabilities	(412,827)	(361,341)	(815,441)
	<u>20,345,581</u>	<u>5,558,041</u>	<u>9,330,660</u>
Revenue	27,491,525	34,366,248	9,570,330
Expenses	(18,843,838)	(25,581,027)	(4,286,985)
	<u>8,647,687</u>	<u>8,785,221</u>	<u>5,283,345</u>
Taxation	(632,821)	(964,565)	(1,506,135)
Share of post tax results from associates	8,014,866	7,820,656	3,777,210
Less: Loss on disposal of associates	-	-	(4,590)
Less: Share of net assets in an associate written-off	(58,264)	-	-
	<u>7,956,602</u>	<u>7,820,656</u>	<u>3,772,620</u>

**(l) Other investments**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
At cost:			
Quoted shares in Malaysia	24,750	24,750	24,750
Less: Impairment loss	(21,645)	(21,645)	(21,645)
	<u>3,105</u>	<u>3,105</u>	<u>3,105</u>
At cost:			
Unquoted shares in Malaysia	160,000	160,000	160,000
Less: Impairment loss	(95,970)	(95,970)	(160,000)
	<u>64,030</u>	<u>64,030</u>	<u>-</u>
	<u>67,135</u>	<u>67,135</u>	<u>3,105</u>
Market value:			
Quoted shares in Malaysia	<u>3,105</u>	<u>3,105</u>	<u>3,105</u>

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**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(m) Deferred tax assets/(liabilities)**

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and when the deferred taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2004 RM	2005 RM	2006 RM
Deferred tax assets	41,885	-	-
Deferred tax liabilities	(2,047,066)	(1,361,372)	(878,424)
	<u>(2,005,181)</u>	<u>(1,361,372)</u>	<u>(878,424)</u>
At 1 January	(1,746,782)	(2,005,181)	(1,361,372)
(Charged)/credited to income statement:			
- property, plant and equipment	(65,550)	(166,265)	98,736
- dry docking expenditure	923,000	1,350,000	-
- unrealised foreign exchange (loss)/gain	71,151	74,645	(65,349)
- tax losses	(1,187,000)	(616,000)	-
- allowance for doubtful debt	-	-	74,641
Disposal of subsidiaries	-	1,429	374,920
At end of financial year	<u>(2,005,181)</u>	<u>(1,361,372)</u>	<u>(878,424)</u>
Deferred tax assets (before offsetting)			
Property, plant and equipment	44,000	32,080	-
Unrealised foreign exchange loss	161,005	218,885	-
Tax losses	616,000	-	-
Allowance for doubtful debts	-	-	74,641
	<u>821,005</u>	<u>250,965</u>	<u>74,641</u>
Less: Offsetting	<u>(779,120)</u>	<u>(250,965)</u>	<u>(74,641)</u>
Deferred tax assets (after offsetting)	<u>41,885</u>	<u>-</u>	<u>-</u>
Deferred tax liabilities (before offsetting)			
Property, plant and equipment	(807,996)	(951,982)	(853,246)
Dry docking expenditure	(1,934,000)	(584,000)	-
Unrealised foreign exchange gain	(84,190)	(76,355)	(99,819)
	<u>(2,826,186)</u>	<u>(1,612,337)</u>	<u>(953,065)</u>
Less: Offsetting	<u>779,120</u>	<u>250,965</u>	<u>74,641</u>
Deferred taxation liabilities (after offsetting)	<u>(2,047,066)</u>	<u>(1,361,372)</u>	<u>(878,424)</u>

The amount of deferred tax assets not recognised is as follow:

	2004 RM	2005 RM	2006 RM
Tax losses (no expiry date)	<u>4,920,460</u>	<u>-</u>	<u>-</u>

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**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(n) Inventories**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
At cost:			
Raw materials	-	74,589	-
Finished goods	466,012	490,218	2,094,025
	<u>466,012</u>	<u>564,807</u>	<u>2,094,025</u>

**(o) Amounts due from ultimate holding company**

The amounts due from ultimate holding company, Deleum, are unsecured, interest-free and have no fixed terms of repayment. The amounts due from ultimate holding company are denominated in Ringgit Malaysia.

**(p) Amounts due from/(to) associates**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Amounts due from associates	9,906,913	666,829	18,007
Amounts due to associates	<u>(164)</u>	<u>(2,503)</u>	<u>-</u>

The amounts due from/(to) associates are unsecured, interest free, have no fixed terms of repayment and are denominated in Ringgit Malaysia.

**(q) Trade and other receivables, deposits and prepayments**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Trade receivables	191,692,967	125,483,571	75,457,858
Less: Allowance for doubtful debts	(558,179)	(353,874)	(1,409,630)
	191,134,788	125,129,697	74,048,228
Other receivables	16,182,606	8,325,360	6,109,620
Less: Allowance for doubtful debts	(2,070,675)	(2,353,126)	(2,353,126)
	14,111,931	5,972,234	3,756,494
Deposits	205,246,719	131,101,931	77,804,722
Prepayments	344,667	711,925	251,362
	681,465	443,582	-
	<u>206,272,851</u>	<u>132,257,438</u>	<u>78,056,084</u>

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F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(q) Trade and other receivables, deposits and prepayments (continued)

The currency exposure profile of trade receivables is as follows:

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
- Ringgit Malaysia	9,216,591	10,038,902	12,001,901
- US Dollar	180,008,203	105,159,092	61,451,376
- Pound Sterling	1,895,109	9,890,742	328,538
- Singapore Dollar	14,885	40,961	40,250
- EURO	-	-	226,163
	<u>191,134,788</u>	<u>125,129,697</u>	<u>74,048,228</u>

Credit terms of trade receivables ranged from 30 to 45 days.

Details of the ageing of trade receivables based on the Delcom Group's accounting records as at 31 December are as follows:

	<u>Within credit period</u>		<u>Exceed credit period</u>		<u>Total</u>
	<u>0-30</u> <u>days</u>	<u>31-60</u> <u>days</u>	<u>61-120</u> <u>days</u>	<u>over</u> <u>120 days</u>	
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2004</u>					
Trade receivables	125,054	47,725	11,968	6,388	191,135
% of total receivables	65.4%	25.0%	6.3%	3.3%	100%
Trade receivable turnover (days)					118
<u>31 December 2005</u>					
Trade receivables	73,362	32,258	17,663	1,847	125,130
% of total receivables	58.6%	25.8%	14.1%	1.5%	100%
Trade receivable turnover (days)					65

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F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(q) Trade and other receivables, deposits and prepayments (continued)

	Within credit period		Exceed credit period		Total
	0-30 days	31-60 days	61-120 days	over 120 days	
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2006</u>					
Trade receivables	46,544	14,389	7,574	5,541	74,048
% of total receivables	62.9%	19.4%	10.2%	7.5%	100%
Trade receivable turnover (days)					60

56% of Delcom Group's trade receivables as at 31 December 2006 relates to 4 main customers while the remaining balance is spread over a large number of customers who are major players in the oil and gas industry with high credit worthiness. Delcom Group's historical experience in collection of account receivable falls within the recorded allowances. Due to these factors, the Directors believe that no additional credit risk beyond amounts provided for collection losses is inherent in Delcom Group's trade receivables.

The trade receivables of a subsidiary have been pledged as security for a term loan as disclosed in Note (v).

(r) Cash and cash equivalents

	2004 RM	2005 RM	2006 RM
Deposits with licensed banks	18,619,391	31,369,794	31,697,270
Cash and bank balances	15,651,396	11,925,070	4,454,259
Bank overdraft (Note (u))	34,270,787 (2,043)	43,294,864 (73)	36,151,529 (1,683)
	34,268,744	43,294,791	36,149,846
The currency exposure profile of cash and cash equivalents is as follows:			
- Ringgit Malaysia	28,535,828	34,843,529	36,144,604
- US Dollars	5,579,622	8,451,262	5,242
- Others	153,294	-	-
	34,268,744	43,294,791	36,149,846



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**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(r) Cash and cash equivalents (continued)**

The weighted average interest rates of deposits with licensed banks and bank overdraft that were effective at the financial year end are as follows:

	<u>2004</u> %	<u>2005</u> %	<u>2006</u> %
Deposits with licensed banks	2.20	2.29	2.50
Bank overdraft	7.50	7.25	7.75

The average maturity days of deposits with licensed banks are as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Deposits with licensed banks (days)	14	18	21

Bank balances are deposits held at call with banks and earn no interest.

**(s) Amounts due to related parties**

The amounts due to related parties were trade in nature, unsecured, interest free and had no fixed terms of repayment. These amounts were denominated in Ringgit Malaysia. The related parties were corporations related to the corporate shareholder of a subsidiary, Foradel Sdn. Bhd., which was disposed in 2006.

**(t) Trade and other payables and accruals**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Trade payables	75,196,148	104,237,028	41,289,663
Trade accruals	196,000	7,928,123	31,939,472
	<u>75,392,148</u>	<u>112,165,151</u>	<u>73,229,135</u>
Other payables	103,455,346	16,312,367	5,021,859
Accruals	6,897,903	5,306,018	1,493,298
	<u>185,745,397</u>	<u>133,783,536</u>	<u>79,744,292</u>

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**(iv) Notes to the Historical Financial Statements (continued)**

**(t) Trade and other payables and accruals (continued)**

The currency exposure profile of trade payables and trade accruals are as follows:

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
- Ringgit Malaysia	9,495,599	2,605,343	4,896,735
- US Dollar	62,700,311	98,351,881	67,105,763
- Pound Sterling	2,575,559	10,559,948	1,002,047
- Singapore Dollar	403,195	624,498	-
- Others	217,484	23,481	224,590
	<u>75,392,148</u>	<u>112,165,151</u>	<u>73,229,135</u>

Credit terms of trade payables ranged from 30 to 45 days.

Details of the ageing of trade payables based on Delcom Group's accounting records as at 31 December are as follows:

	<u>Within credit period</u>		<u>Exceed credit period</u>		<u>Total</u>
	<u>0-30</u> <u>days</u>	<u>31-60</u> <u>days</u>	<u>61-120</u> <u>days</u>	<u>over</u> <u>120 days</u>	
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2004</u>					
Trade payables	<u>26,175</u>	<u>30,164</u>	<u>9,619</u>	<u>9,238</u>	<u>75,196</u>
% of total payables	<u>34.8%</u>	<u>40.1%</u>	<u>12.8%</u>	<u>12.3%</u>	<u>100%</u>
Trade payables turnover (days)					<u>51</u>

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(iv) Notes to the Historical Financial Statements (continued)

(t) Trade and other payables and other accruals (continued)

	Within credit period		Exceed credit period		Total
	0-30 days	31-60 days	61-120 days	over 120 days	
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2005</u>					
Trade payables	33,756	40,856	23,110	6,515	104,237
% of total payables	32.4%	39.2%	22.2%	6.2%	100%
Trade payables turnover (days)					59
<u>31 December 2006</u>					
Trade payables	12,442	7,233	12,728	8,887	41,290
% of total payables	30.2%	17.5%	30.8%	21.5%	100%
Trade payables turnover (days)					37

(u) Borrowings

	2004 RM	2005 RM	2006 RM
Bank overdraft (Note (r)) - unsecured	2,043	73	1,683
Term loans (Note (v)) - secured	515,360	549,049	1,057,533
	517,403	549,122	1,059,216

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**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(v) Term loans (secured)**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Al-Bai Bithaman Ajil non interest bearing facilities	2,434,996	1,919,724	4,089,057
Less: Amount repayable within 12 months (Note (u))	(515,360)	(549,049)	(1,057,533)
	<u>1,919,636</u>	<u>1,370,675</u>	<u>3,031,524</u>
Due within 1 year	515,360	549,049	1,057,533
Due between 2 to 5 years	1,919,636	1,370,675	3,031,524
	<u>2,434,996</u>	<u>1,919,724</u>	<u>4,089,057</u>

The Al-Bai Bithaman Ajil term loans are repayable by 60 equal monthly instalments of RM54,589 each commencing 24 April 2004 and 60 equal monthly instalments of RM52,830 each commencing 29 January 2007 respectively. The term loans bear a profit sharing margin of 6.22% to 6.35% per annum as at 31 December 2006 (2005: 6.35%, 2004: 6.35%) and is secured over a debenture over all the fixed and floating assets of a subsidiary and corporate guarantee for RM4,498,348 furnished by DSSB.

The fair value amount of the term loans as at the balance sheet date is as follows:

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Fair value of term loans	<u>2,404,000</u>	<u>1,842,229</u>	<u>3,872,986</u>

**(w) Share capital**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
<u>Authorised ordinary shares of RM1 each:</u>			
At start of the financial year/end of the financial year	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
<u>Issued and fully paid ordinary shares of RM1 each:</u>			
At start of the financial year/end of the financial year	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>

**(x) Retained earnings**

There are sufficient Section 108 tax credits to frank all the retained earnings of the Company at 31 December 2004, 31 December 2005 and 31 December 2006 if paid out as dividends.

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F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(y) Capital reserve (Non-distributable)

	<u>2004</u> RM	<u>2005</u> RM	Group <u>2006</u> RM
Capital reserve	126,800	126,800	-
Reserve on consolidation	1,307,895	1,294,730	-
	<u>1,434,695</u>	<u>1,421,530</u>	<u>-</u>

(z) Corporations in Delcom Group

Delcom Group's effective equity interest in the subsidiaries and associates, their respective principal activities and country of incorporation are as follows:

	<u>Name of Company</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>			<u>Principal activities</u>
			<u>2004</u> %	<u>2005</u> %	<u>2006</u> %	
A	SUBSIDIARIES:					
*	Delcom Oilfield Services Sdn. Bhd.	Malaysia	100	100	100	Provision of wireline and wellhead equipment, offshore drillings rigs and related services and other oilfield equipment and technical services to the oil and gas industry.
*	Delcom Chemicals Sdn. Bhd.	Malaysia	60	60	60	Development and provision of solid deposit removal solutions for enhancement of crude oil production, and provision of oilfield chemicals and services.
	Turboservices Sdn. Bhd.	Malaysia	74	74	74	Provision of gas turbine overhaul and technical services and supply of gas turbine parts to the oil and gas, and general industries.

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(z) Corporations in Delcom Group (continued)

	<u>Name of Company</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>			<u>Principal activities</u>
			<u>2004</u>	<u>2005</u>	<u>2006</u>	
			%	%	%	
A	SUBSIDIARIES (CONTINUED):					
*	Turboservices Overhaul Sdn. Bhd. <sup>β</sup>	Malaysia	-	100	-	Dormant.
*	VSM Technology Sdn. Bhd.	Malaysia	90	90	90	Dormant.
*	Wisteria Sdn. Bhd.	Malaysia	100	100	100	Dormant.
*	Delcom Holdings Sdn. Bhd.	Malaysia	100	100	100	Dormant.
*	Delmac Pipeline Services Sdn. Bhd. <sup>α</sup>	Malaysia	100	-	-	Dormant.
*	DJVI Sdn. Bhd. #	Malaysia	100	-	-	Dormant.
*	Delcom Manpower Services Limited #	British Virgin Islands	100	-	-	Dormant.
B	ASSOCIATES:					
	<u>Associates of DSSB</u>					
*	Malaysian Mud and Chemicals Sdn. Bhd.	Malaysia	32	32	32	Operation of a bulking installation, offering dry and liquid bulking services to offshore oil exploration companies.

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(z) Corporations in Delcom Group (continued)

<u>Name of Company</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>			<u>Principal activities</u>
		<u>2004</u>	<u>2005</u>	<u>2006</u>	
		<u>%</u>	<u>%</u>	<u>%</u>	
SUBSIDIARIES AND ASSOCIATES DISPOSED:					
Foradel Sdn. Bhd. <sup>∞</sup>	Malaysia	73	73	-	Provision and operations of offshore drilling rigs.
* Delcom Services Holdings Limited ("DSHL") <sup>‡</sup>	Hong Kong	100	-	-	Investment holding.
* Defcom Services Sdn. Bhd. <sup>⊠</sup>	Malaysia	51	-	-	Supply and distribution of security related equipment.
* Westerngeco (M) Sdn. Bhd. <sup>⊠</sup>	Malaysia	73	-	-	Provision of services in respect of seismic acquisition and data processing.
* Dynamic Support Sdn. Bhd. <sup>⊠</sup>	Malaysia	-	-	-	Dormant.
* O & G Integrated Services Sdn. Bhd. <sup>⊠</sup>	Malaysia	100	-	-	Dormant.
* Sonsub Services (M) Sdn. Bhd. <sup>⊠</sup> (Now known as Silver Top Services Sdn. Bhd.)	Malaysia	100	-	-	Dormant.

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(z) Corporations in Delcom Group (continued)

Name of Company	Country of incorporation	Group's effective equity interest			Principal activities
		2004 %	2005 %	2006 %	
SUBSIDIARIES AND ASSOCIATES DISPOSED (CONTINUED):					
* Delcom Trading Sdn. Bhd. <sup>⊠</sup> (Now known as Erat Jernih Sdn. Bhd.)	Malaysia	100	-	-	Dormant.
* Multi Logistics Services Sdn. Bhd. <sup>⊠</sup>	Malaysia	100	-	-	Dormant.
* United Communications Industry Sdn. Bhd. <sup>⊠</sup>	Malaysia	100	-	-	Dormant.
* Delcom SVS Sdn. Bhd. <sup>⊠</sup> (Now known as Momentum Excel Sdn. Bhd.)	Malaysia	100	-	-	Dormant.
* Econergy Sdn. Bhd. <sup>⊠</sup>	Malaysia	100	-	-	Dormant.
<u>Subsidiaries of DSHL</u>					
* Delcom Utilities (Cambodia) Limited ("DUCL") <sup>‡</sup>	British Virgin Islands	60	-	-	Dormant.
* Delcom Power (Cambodia) Limited <sup>‡</sup>	British Virgin Islands	60	-	-	Dormant.
<u>Associates of DSSB</u>					
Sistem Iridium Malaysia Sdn. Bhd. <sup>∞</sup>	Malaysia	30	30	-	Dormant.
* Vetco Gray Delcom Sdn. Bhd. <sup>∞</sup>	Malaysia	40	40	-	Dormant.



## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(z) Corporations in Delcom Group (continued)

Name of Company	Country of incorporation	Group's effective equity interest			Principal activities
		2004 %	2005 %	2006 %	
SUBSIDIARIES AND ASSOCIATES DISPOSED (CONTINUED):					
* Eckardt Sdn. Bhd.▣ (Now known as Saffron Ventures Sdn. Bhd.)	Malaysia	40	-	-	Dormant.
<u>Associates of DSHL</u>					
* Delcom Services (Thailand) Co Ltd ∞	Thailand	49	49	-	Dormant.
* PT Binaguna Delcom∞	Indonesia	-	49	-	Supply of oilfield equipment and services to the oil and gas industry.
<u>Associate of DUCL</u>					
^ Cambodia Utilities Pte Ltd †	Cambodia	12	12	12	Maintain and operate a power plant in Cambodia.

^ Audited by member firms of PricewaterhouseCoopers International Limited which are separate and independent legal entities from PricewaterhouseCoopers Malaysia.

\* Corporations not audited by PricewaterhouseCoopers Malaysia or member firm of PricewaterhouseCoopers International Limited.

∞ Company disposed off during the financial year ended 31 December 2006.

▣ Companies disposed off during the financial year ended 31 December 2005.

α Companies wound up during the financial year ended 31 December 2004.

# Companies struck off during the financial year ended 31 December 2004.

β Company disposed to Deleum during the financial year ended 31 December 2006 for RM2.

† Companies disposed to Deleum during the financial year ended 31 December 2005.

**10. ACCOUNTANTS' REPORT (Cont'd)**

The Board of Directors  
 Deleum Berhad  
 PwC/PH/LKT/zu/1644J  
 11 April 2007

**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(aa) Operating lease commitments**

Delcom Group has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases, is as follows:

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Within one year	718,079	609,954	359,706
Between one to five years	1,435,358	1,094,834	1,266,024
More than five years	<u>1,239,150</u>	<u>991,320</u>	<u>1,086,474</u>

**(ab) Capital commitments**

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Capital expenditure for property, plant and equipment			
Authorised and contracted for at the balance sheet date but not yet incurred	-	<u>3,250,000</u>	<u>4,348,380</u>
Authorised and contracted for after the balance sheet date	<u>-</u>	<u>-</u>	<u>1,944,914</u>

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(ac) Significant related party disclosures**

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below are carried out on agreed terms and conditions with the related parties.

The companies mentioned below are related to a corporate shareholder of a subsidiary, Foradel Sdn. Bhd.. Foradel Sdn. Bhd. has been disposed during the financial year ended 31 December 2006 as disclosed in Note (g).

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Insurance and consultancy fees charged by a related company:			
- Pride International Management Company	2,409,003	22,636	-
Supplies purchased from related companies:			
- Petroleum Supply Company	5,851,763	4,166,497	-
Administrative expenses charged by a related company:			
- Pride International Pty. Ltd. Regional Office	1,644,739	-	-
Rental and personnel costs charged by a corporate shareholder of a subsidiary:			
- Pride Foramer Malaysia	26,674,577	11,789,038	-
Rental cost charged by a related company:			
- Medfor Labuan Ltd.	-	8,006,223	-
Personnel costs charged to a related company:			
- International de Travaux et de Material	(67,108)	(220,097)	-
- Pride Foramer	-	(235,971)	-
- Somaser SNC	-	(70,236)	-
Sale of supplies to a related company:			
- Pride Foramer Indonesia	(63,342)	-	-

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(ac) Significant related party disclosures (continued)**

The following transaction is with a party related to a corporate shareholder of a subsidiary, Turboservices Sdn. Bhd.

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Purchases:			
- Solar Turbines International Company	62,379,253	83,334,000	71,001,851

Significant outstanding balance arising from the above transactions during the financial years are as follows:

	<u>2004</u> RM	<u>2005</u> RM	<u>2006</u> RM
Amount due to Solar Turbines International Company	10,517,731	18,814,030	10,953,124

**(ad) Changes in accounting policies and reclassification of comparatives**

**(1) Prior year adjustment**

The prior year adjustment has been made during the financial year ended 31 December 2004 to reflect Delcom Group's effective equity interest of 12% in Cambodia Utilities Pte. Ltd. instead of 20%, as previously reported. The restatement has been accounted for retrospectively.

The effects of the restatement on the Delcom Group's financial statements are as follows:

	As previously <u>reported</u> RM	Prior year <u>adjustment</u> RM	As <u>restated</u> RM
<u>Group</u>			
<u>At 31 December 2003</u>			
Retained earnings	46,230,473	(4,249,840)	41,980,633
Minority interest	15,169,269	4,249,840	19,419,109



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

**F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)**

**(iv) Notes to the Historical Financial Statements (continued)**

**(ad) Changes in accounting policies and reclassification of comparatives (continued)**

**(2) Adoption of new accounting standards, amendment to published standards and interpretations**

Set out below are changes in accounting policies that resulted in restatements and reclassification of prior year comparatives and/or opening balances but did not affect the recognition and measurement of Delcom Group's net assets:

- Under the transitional provision of FRS 3, Delcom Group's carrying amount of negative goodwill that arose from acquisitions prior to 1 January 2006 was derecognised with a corresponding adjustment to retained earnings.
- FRS 101 has affected the presentation of minority interest. In the consolidated balance sheet, minority interest is now presented within equity, separately from parent shareholders' equity. Profit or loss in the consolidated income statement as well as total income and expenses for the year recognised directly in equity are now allocated between minority interest and equity holders of the parent.
- Under FRS 101, Delcom Group's share of results of associates are now shown net of tax.
- The definition of investment properties under FRS 140 has resulted in identification of certain assets of Delcom Group that meet the definition of investment properties. These properties are now classified into a separate asset category on the balance sheet. Previously, they were included in property, plant and equipment.

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(ad) Changes in accounting policies and reclassification of comparatives (continued)

(2) Adoption of new accounting standards, amendment to published standards and interpretations (continued)

The effect of these changes in accounting policies on Delcom Group's financial statements are as follows:

	As previously <u>reported</u> RM	<u>Reclassification</u> RM	As <u>restated</u> RM
<u>At 1 January 2004</u>			
Property, plant and equipment	12,447,853	(1,312,638)	11,135,215
Investment properties	-	1,312,638	1,312,638
Total equity	52,963,908	19,419,109	72,383,017
<u>Financial year ended</u> <u>31 December 2004</u>			
Share of results of associates	8,647,687	(691,085)	7,956,602
Other operating expenses	(2,218,587)	58,264	(2,160,323)
Tax expense	(7,120,061)	632,821	(6,487,240)
Profit for the financial year	19,317,017	3,947,628	23,264,645
<u>At 31 December 2004 /</u> <u>1 January 2005</u>			
Property, plant and equipment	14,509,839	(1,155,188)	13,354,651
Investment properties	-	1,155,188	1,155,188
Total equity	71,273,040	23,254,790	94,527,830
<u>Financial year ended</u> <u>31 December 2005</u>			
Share of results of associates	8,785,221	(964,565)	7,820,656
Profit before tax	25,464,537	(964,565)	24,499,972
Tax expense	(8,227,359)	964,565	(7,262,794)
Profit for the financial year	13,445,571	3,791,607	17,237,178
<u>At 31 December 2005 /</u> <u>1 January 2006</u>			
Property, plant and equipment	14,260,659	(1,131,613)	13,129,046
Investment properties	-	1,131,613	1,131,613
Total equity	62,985,076	2,957,643	65,942,719

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(ad) Changes in accounting policies and reclassification of comparatives (continued)

(2) Adoption of new accounting standards, amendment to published standards and interpretations (continued)

	As previously <u>reported</u> RM	<u>Reclassification</u> RM	As <u>restated</u> RM
<u>At 1 January 2006</u>			
Retained earnings	52,090,221	1,421,530	53,511,751
Capital reserve	1,421,530	(1,421,530)	-
<u>Financial year ended 31 December 2006</u>			
Share of results of associates	5,278,755	(1,506,135)	3,772,620
Profit before tax	24,820,876	(1,506,135)	23,314,741
Tax expense	(8,236,503)	1,506,135	(6,730,368)
Profit for the financial year	16,618,162	(33,790)	16,584,372
<u>At 31 December 2006</u>			
Property, plant and equipment	16,798,038	(1,108,038)	15,690,000
Investment properties	-	1,108,038	1,108,038
Retained earnings	68,708,383	1,421,530	70,129,913
Capital reserve	1,421,530	(1,421,530)	-
Total equity	<u>79,603,238</u>	<u>2,211,375</u>	<u>81,814,613</u>

## 10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

F HISTORICAL FINANCIAL PERFORMANCE AND FINANCIAL STATEMENTS – DELCOM GROUP (CONTINUED)

(iv) Notes to the Historical Financial Statements (continued)

(ad) Changes in accounting policies and reclassification of comparatives (continued)

Certain comparative figures have been reclassified to conform with presentation in financial year ended 31 December 2006. The effects of the reclassification are as follows:

<u>Financial year ended</u>	As <u>previously</u> <u>reported</u> RM	<u>Reclassification</u> RM	As <u>restated</u> RM
<u>31 December 2004</u>			
Revenue			
- sale of specialised equipment	187,280,677	(4,354,505)	182,926,172
- marketing fee	-	4,354,505	4,354,505
<u>Financial year ended</u>			
<u>31 December 2005</u>			
Revenue			
- sale of specialised equipment	244,927,884	(16,684,127)	228,243,757
- marketing fee	-	7,161,264	7,161,264
Cost of sales	<u>(656,475,038)</u>	<u>9,522,863</u>	<u>(646,952,175)</u>

(ae) Litigation

Paramjit Singh Gill ("the Plaintiff") is claiming for a 50% interest in a Vehicle Speed Monitoring System Project ("the Project") which was undertaken by DSSB and VSM Technology Sdn. Bhd. ("VSM"), a subsidiary, pursuant to an agreement between DSSB and the Ministry of Transport dated 5 May 1995. In their defence, DSSB and VSM are *inter alia* claiming that the Plaintiff's alleged involvement in the Project was solely by virtue of his firm of solicitors being appointed to act on a retainer basis by DSSB and VSM, and that at no time was there any understanding or argument whether in writing or oral, express or implied that the Plaintiff would participate, whether actively or otherwise, or have any interest in VSM.

The matter is now fixed for further hearing on 11 to 14 June 2007. Based on the advice of solicitors, the Directors are of the opinion that the claim is unlikely to be successful and no provision has been made in the financial statements.



10. ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors  
Deleum Berhad  
PwC/PH/LKT/zu/1644J  
11 April 2007

**G SIGNIFICANT POST BALANCE SHEET DATE EVENTS**

Save for the listing scheme as set out in Section B(iii) of this Report, there are no significant events which have occurred subsequent to the last balance sheet date of Deleum Group until the date of this Report which require adjustments to or disclosures in this Report.

Yours faithfully,

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature in black ink that reads "Pauline Ho".

PAULINE HO  
(No. 2684/11/07 (J))  
Partner of the firm



PricewaterhouseCoopers  
(AF 1146)  
Chartered Accountants  
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REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELEUM SDN. BHD.  
(Company No. 715640-T)

We have audited the financial statements set out on pages 6 to 50. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Company as at 31 December 2005 and of the results and cash flows of the Group and the Company for the financial year/period ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 32 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.



REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELEUM SDN. BHD. (CONTINUED)  
(Company No. 715640-T)

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection 3 of section 174 of the Act.

A stylized, handwritten signature of the firm Price Waterhouse Coopers.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature of Shirley Goh.

SHIRLEY GOH  
(No. 1778/08/06 (J))  
Partner of the firm

Kuala Lumpur  
30 May 2006



PricewaterhouseCoopers  
(AF 1146)  
Chartered Accountants  
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REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELEUM BERHAD

(formerly known as Deleum Sdn. Bhd.)  
(Company No. 715640-T)

We have audited the financial statements set out on pages 6 to 64. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia for entities other than private entities so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Company as at 31 December 2006 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 35 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.



REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELEUM BERHAD (CONTINUED)  
(formerly known as Deleum Sdn. Bhd.)  
(Company No. 715640-T)

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection 3 of section 174 of the Act.

A handwritten signature in black ink, appearing to read 'Pauline Ho'.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Pauline Ho'.

PAULINE HO  
(No. 2684/11/07 (J))  
Partner of the firm

Kuala Lumpur  
19 March 2007



PricewaterhouseCoopers  
(AF 1146)  
Chartered Accountants  
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REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELCOM SERVICES SDN. BHD.  
(Company No. 28307 K)

We have audited the financial statements set out on pages 5 to 42. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Company as at 31 December 2004 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 29 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.



REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELCOM SERVICES SDN. BHD. (CONTINUED)  
(Company No. 28307 K)

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection 3 of section 174 of the Act.

A handwritten signature in cursive script, appearing to read 'Price Waterhouse Coopers'.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature in cursive script, appearing to read 'Shirley Goh'.

SHIRLEY GOH  
(No. 1778/08/06 (J))  
Partner of the firm

16 JUN 2005



PricewaterhouseCoopers  
(AF 1146)  
Chartered Accountants  
11th Floor Wisma Sime Darby  
Jalan Raja Laut  
P O Box 10192  
50706 Kuala Lumpur, Malaysia  
Telephone +60 (3) 2693 1077  
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REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELCOM SERVICES SDN. BHD.  
(Company No. 28307 K)

We have audited the financial statements set out on pages 6 to 44. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Company as at 31 December 2005 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 30 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.





REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELCOM SERVICES SDN. BHD. (CONTINUED)  
(Company No. 28307 K)

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection 3 of section 174 of the Act.

A handwritten signature in cursive script that reads "Price Waterhouse Coopers".

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

Kuala Lumpur  
30 May 2006

A handwritten signature in cursive script that reads "Shirley Goh".

SHIRLEY GOH  
(No. 1778/08/06 (J))  
Partner of the firm



PricewaterhouseCoopers  
(AF 1146)  
Chartered Accountants  
11th Floor Wisma Sime Darby  
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REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELCOM SERVICES SDN. BHD.  
(Company No. 28307 K)

We have audited the financial statements set out on pages 6 to 56. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia for entities other than private entities so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Company as at 31 December 2006 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 32 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.



REPORT OF THE AUDITORS TO THE MEMBERS OF  
DELCOM SERVICES SDN. BHD. (CONTINUED)  
(Company No. 28307 K)

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection 3 of section 174 of the Act.

A handwritten signature in black ink, appearing to read 'Pauline Ho'.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Pauline Ho'.

PAULINE HO  
(No. 2684/11/07 (J))  
Partner of the firm

Kuala Lumpur  
19 March 2007

**10. ACCOUNTANTS' REPORT (Cont'd)****APPENDIX VI****DELEUM BERHAD**  
ACCOUNTANTS' REPORT

6 April 2007

**DEFINITION OF FINANCIAL RATIOS**

<b>Financial Position</b>	
Paid up capital	The amount of share capital paid to date
Shareholders' funds	Share capital + Reserves
Net tangible assets ("NTA")	Total assets – Intangible assets – Total liabilities – Minority Interest
NTA per share	$\frac{\text{Net tangible assets}}{\text{Number of ordinary shares in issue}}$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Gearing	$\frac{\text{All interest-bearing debts}}{\text{Shareholders' funds}}$

<b>Financial Results</b>	
Earnings per share – basic	$\frac{\text{Profit for the financial year attributable to equity holders of the entity}}{\text{Weighted average number of ordinary shares in issue}}$
Gross dividend rate	$\frac{\text{Gross dividend}}{\text{Paid up capital}}$
Effective tax rate	$\frac{\text{Income tax charge (current tax + deferred tax in respect of current year)}}{\text{Profit before tax}}$
Gross profit margin	$\frac{\text{Gross profit}}{\text{Revenue}}$
Pre-tax profit margin	$\frac{\text{Profit before tax}}{\text{Revenue}}$
Interest cover ratio	$\frac{\text{Profit before interest and tax}}{\text{Interest}}$
After tax return on shareholders funds'	$\frac{\text{Profit for the financial year attributable to equity holders of the entity}}{\text{Shareholders' funds}}$

<b>Turnover period</b>	
Trade receivables turnover period	$\frac{\text{Trade receivables (net of allowance)} \times 365 \text{ days}}{\text{Revenue}}$
Trade payables turnover period	$\frac{\text{Trade payables} \times 365 \text{ days}}{\text{Cost of sales}}$

**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT**

*(Prepared for inclusion in the Prospectus)*



**VITAL FACTOR CONSULTING**  
Creating Winning Business Solutions

**Vital Factor Consulting Sdn Bhd**  
(Company No.: 266797-T)  
75C & 77C Jalan SS22/19  
Damansara Jaya  
47400 Petaling Jaya  
Selangor Darul Ehsan, Malaysia  
Tel: (603) 7728-0248  
Fax: (603) 7728-7248  
Email: info@vitalfactor.com  
Website: www.vitalfactor.com

**17 APR 2007**

The Board of Directors  
Deleum Berhad  
No. 42, Jalan Bangsar Utama 1  
Bangsar Utama  
59000 Kuala Lumpur  
Malaysia

Dear Sirs

**Independent Assessment of the Supporting Products and Services for the Oil and Gas Industry**

The following is a summary of the **Independent Assessment of the Supporting Products and Services for the Oil and Gas Industry** in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of **Deleum Berhad** (herein together with all its subsidiaries will be referred to as Deleum Group) in relation to its listing on the Main Board of Bursa Malaysia Securities Berhad.

**1.1 BACKGROUND OF DELEUM GROUP**

- The principal activity of Deleum Group is in the provision of Supporting Specialised Products and Services for the Exploration and Production of Oil and Gas.
- Deleum Group's principal business activities cover the following areas:
  - Specialised Equipment Services;
  - Oilfield Equipment and Services;
  - Oilfield Chemicals and Services.
- Deleum Group's other business activities through its associate companies include:
  - Bulking Services;
  - Independent Power Production.
- For the financial year ended 31 December 2006, Deleum Group recorded total revenue of RM432.4 million. Local revenue accounted for 96.7% of Deleum Group's total revenue.

## 11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)



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### 1.2 INDUSTRY OVERVIEW

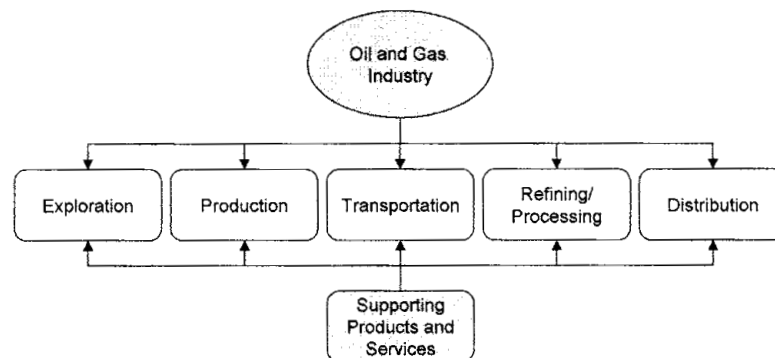
- The Oil and Gas Industry plays a significant role as a major contributor to the growth and development of the Malaysian economy, contributing in terms of domestic production and as a major generator of export earnings.
- The Supporting Products and Services sector plays a critical supporting role in ensuring the effective facilitation of operations in the Oil and Gas Industry.
- In 2006, the sales value of the domestic manufacture of refined petroleum products amounted to RM82.4 billion (*Source: Department of Statistics*).
- In 2006, export value of major product segments of the Oil and Gas Industry are as follows:
  - Export value of Crude Petroleum amounted to RM32.6 billion;
  - Export value of Refined Petroleum Products amounted to RM19.2 billion;
  - Export value of Residual Petroleum Products amounted to RM525.7 million;
  - Export value of Liquefied Propane and Butane amounted to RM2.0 billion;
  - Export value of Natural Gas amounted to RM23.3 billion; and
  - Export value of Other Gaseous Hydrocarbons amounted to RM2.9 billion.

(*Source: Department of Statistics*)
- In addition to its contribution to the nation's foreign exchange earnings, the Oil and Gas Industry also contributes towards employment generation, value-added creation and income generation.

### 1.3 INDUSTRY STRUCTURE

#### 1.3.1 Oil and Gas Industry Segmentation

- The structure of the Oil and Gas Industry may be depicted as follows:



**Figure 1 Segmentation of the Oil and Gas Industry**

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**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**


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- **Exploration** comprises activities that are related to the prospecting of undiscovered hydrocarbons. Exploration activities include the collection and interpretation of seismic survey data, and exploratory drilling and core analysis.

Deleum Group is involved in providing Exploration Drilling through Offshore Drilling Rig Operations.

- **Production** comprises activities that are related to the extraction of hydrocarbons from identified hydrocarbon reserves. Production activities directly related to the extraction of hydrocarbons include drilling for hydrocarbons, completion, and production platform engineering and construction.

Deleum Group is involved in the following Production activities:

- Supply of generator set, compressor set and mechanical drive set Gas Turbine Packages;
- Subsea Production Systems and Subsea Wellhead Systems;
- Provision of Gas Turbine Overhaul Services, Parts and Components, and Technical Services;
- Provision of Wireline Products and Services;
- Provision of Wellhead Maintenance Services;
- Provision of Production Equipment and Storage Vessels;
- Provision of Offshore Drilling Rig Operations;
- Provision of Production and Drilling Equipment and Services;
- Provision of Oilfield Chemicals and related services.

- **Transportation** comprises the activities related to the transportation of extracted hydrocarbons from production fields to storage facilities and refineries. Transportation includes the operation of onshore and offshore hydrocarbon pipelines, and the operation of hydrocarbon transport vessels.

Deleum Group is involved in the supply of Drag Reducing Agents, which are chemicals used to increase the efficiency of petroleum transmission through pipelines. The Group is also involved in providing fluid transfer lines.

- **Refining/Processing** comprises activities that are related to the processing of extracted hydrocarbons into a form that may be utilised by intermediate and final users.
- **Distribution** comprises activities that are related to the transportation and distribution of refined hydrocarbons to end-users.
- **Supporting Products and Services** are used to facilitate the exploration, production through to the distribution of Oil and Gas. Some examples include, among many others, Oil and Gas power generation equipment, Oil and Gas production equipment, seismic surveying services, wireline services, maintenance of equipment and machinery, pipeline fabrication and offshore platform fabrication and maintenance.

## 11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)

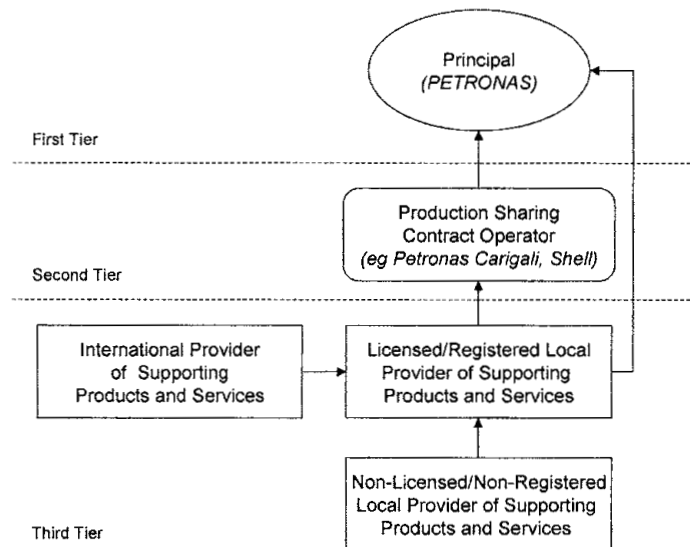


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- Deleum Group is primarily involved in the provision of Supporting Specialised Products and Services for the Exploration and Production of Oil and Gas.

### 1.4 OPERATORS IN THE UPSTREAM OIL AND GAS INDUSTRY

- The operators in the upstream Oil and Gas Industry in Malaysia are segmented into different tiers and this is depicted as follows:



**Figure 2 Operators in the Upstream Oil and Gas Industry in Malaysia**

- Operators in the upstream Oil and Gas Industry in Malaysia is segmented in the following manner:
  - First tier operators, comprising the principal;
  - Second tier operators, comprising of Production Sharing Contract Operators;
  - Third tier operators, comprising local and international providers of Supporting Products and Services.

#### First Tier

- The first tier operator in the Oil and Gas Industry in Malaysia is Petroleum Nasional Bhd (PETRONAS), the national petroleum corporation.
- PETRONAS is the primary regulator of the Oil and Gas Industry in Malaysia and the licensing body that is responsible for the industry's long-term development.
- PETRONAS is involved in a wide range of Oil and Gas Industry activities, including upstream exploration and production, oil and gas refining and processing, gas transmission pipeline network operations and marketing and distribution of petroleum products.



11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (*Cont'd*)

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- PETRONAS also participates in the international Oil and Gas Industry. As at 31 March 2006, PETRONAS had interests in 62 upstream (exploration and production) ventures in 23 overseas countries.

(Source: PETRONAS)

**Second Tier**

- The second tier operators in the Oil and Gas Industry in Malaysia are the Production Sharing Contract (PSC) operators.
- PSC operators are typically international Oil and Gas companies that have entered into a Production Sharing Contract with PETRONAS. These international Oil and Gas companies have the financial and technical ability to bear the cost and risk of undertaking Oil and Gas exploration, development and production. Petronas Carigali Sdn Bhd, a wholly owned subsidiary of PETRONAS, is also a PSC operator.
- There were 60 active PSC between PETRONAS and PSC operators as at 31 March 2006 (Source: PETRONAS).
- Normally, a PSC operator is given permission to explore, develop and produce hydrocarbons in a specified area for a specified period of time. Revenue from the sale of any produced hydrocarbons first goes towards covering a specified proportion of the costs involved in (including Exploration and Development), and any revenue in excess of this is shared between the PSC operator and PETRONAS.
- The PSC operator bears all of the risks and initial costs involved in initiating hydrocarbon production in the area granted by PETRONAS under the terms of the Production Sharing Contract.
- In addition to the involvement in the upstream segment of the Oil and Gas Industry, some PSC operators are also involved in transportation, refining and distribution.

**Third Tier**

- Third tier operators in the Oil and Gas Industry in Malaysia comprised local providers of Supporting Products and Services, and international providers of Supporting Product and Services.
- Some of the Supporting Products for upstream activities include the provision of power generating equipment, drilling consumables such as drill bits, and oilfield chemicals. Some examples of Supporting Services for upstream activities include equipment maintenance and servicing, wireline services, seismic survey services, and production platform operation and management.

11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)

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- Both local and international providers of Supporting Products and Services are required to obtain the appropriate licences or registration for a particular product or service from PETRONAS before they are allowed to service first and second tier operators.
- International providers of Supporting Products and Services are generally required to establish partnership arrangements with a Malaysian party before they are able to provide Supporting Products and Services to first tier and second tier operators.
- Local providers that are not licensed or registered with PETRONAS can only provide products and service to the Principals and PSC in the Oil and Gas Industry by working together with a licensed or registered operator.
- Deleum Group is a local licensed and registered provider of Supporting Products and Services to the upstream Oil and Gas Industry.

**1.5 INDUSTRY LIFE-CYCLE**

- The life-cycle of the Oil and Gas Industry in Malaysia is in the early part of the mature phase. This is because most of the Oilfields in Malaysia are already explored. However the industry is still experiencing growth at least for the medium term. Growth in the Oil and Gas Industry will create the need and demand for Supporting Products and Services.
- The growth of the Oil and Gas Industry may be reflected in two ways:
  - Growth in investment in Exploration and Production;
  - Growth in Oil and Gas production and export;
  - Growth in the demand for Supporting Products and Services for the Oil and Gas Industry.

**Investment in Exploration and Production**

- The level of investment made by PETRONAS and PSC operators in the Exploration and Production of Oil and Gas Industry in Malaysia increased at an average annual rate of 21.7% between the financial years ended 31 March 2000 and 31 March 2006. (Source: PETRONAS).

**Local Production and Export of Oil and Gas**

- Daily Crude Oil and Condensates production increased at an average annual growth rate of 1.0% between the financial years ended 31 March 2002 and 2006.

**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**



**VITAL FACTOR CONSULTING**

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- Daily Natural Gas Production increased at an average annual growth rate of 0.9% between the financial years ended 31 March 2002 and 2006.

*(Source: PETRONAS)*

- The sales value of the manufacture of Refined Petroleum Products grew at an average annual growth rate of 39.1% between 2002 and 2006. *(Source: Department of Statistics).*

**Exports**

- The export value of Crude Oil increased at an average annual rate of 28.8% between 2002 and 2006;
- The export value of Refined Petroleum Products increased at an average annual rate of 29.8% between 2002 and 2006;
- The export value of Natural Gas, whether or not Liquefied increased at an average annual rate of 23.9% between 2002 and 2006.

*(Source: Department of Statistics)*

**Supporting Products and Services**

- Gas Turbines and gas compressors are widely used in the Oil and Gas Industry for power generation on onshore and offshore facilities. The import value of Gas Turbines declined at an average annual rate of 8.4% between 2002 and 2006. In 2006, provisional data indicated that import value of Gas Turbines declined by 23.2%;
- The import value of Gas Compressors for Hydrocarbon Drilling declined at an average annual rate of 26.9% between 2002 and 2006. In 2006, provisional data indicated that the import value of Gas Compressors for Hydrocarbon Drilling declined by 72.8% compared to the previous year.

*(Source: Department of Statistics)*

**1.6 GOVERNMENT LEGISLATION, POLICIES AND INCENTIVES**

**1.6.1 Government Regulations**

- All rights related to the exploration and extraction of petroleum in Malaysia is vested in Petroliam Nasional Berhad (PETRONAS) under the Petroleum Development Act 1974. PETRONAS was also granted control over the carrying out of downstream activities and development relating to petroleum and its products under the Petroleum Development Act 1974.

## 11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)



### VITAL FACTOR CONSULTING

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- All operators wishing to participate in the Oil and Gas Industry are required to obtain the necessary licences, or successfully register with PETRONAS before they are allowed to participate in these activities.
- Operators who wish to tender for contracts from the Government are also required to register as contractors with the Ministry of Finance (MOF), and the Construction Industry Development Board (CIDB).
- All companies that are in the manufacturing of petrochemical products have to apply for a manufacturing licence from Ministry of Industrial Development Authority or Ministry of International Trade and Industry.
- According to the Industrial Coordination Act, 1975 which mandates all companies with shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees to attain a manufacturing licence (Source: *Malaysian Industrial Development Authority*).

#### 1.6.2 PETRONAS Licenses and Registration

- Applicants are required to specify the scope of work for which the licence or registration is being applied for, based on a set of Standardised Work & Equipment Categories (SWEC). An individual licence or registration must be obtained for each SWEC.
- Companies that have obtained a license for a SWEC are allowed to participate in the upstream sector, downstream sector, and maritime sector of the Oil and Gas Industry.
- In contrast to a licence, companies that are registered in a SWEC are allowed to only participate in the downstream sector and maritime sector of the Oil and Gas Industry. Registered companies are not allowed to participate in the upstream sector or in the offshore sector.
- Generally, licenses and registration are effective for a period of 1 year. However, licenses and registration that are effective for a period of more than 1 year, can be considered.
- Deleum Group currently holds the PETRONAS licences and registrations that are relevant to its business.

#### 1.7 ENVIRONMENTAL REGULATIONS

- Turboservices, a subsidiary of Deleum Group has obtained a written certificate of approval for the Erection of Fuel Burning Equipment, and the Erection etc. of Chimney under the rules and regulations of the Department of Environment's Environmental Quality (Clean Air) Regulations 1978. Under the terms of this certificate, Turboservices is allowed to install and operate fuel burning equipment and chimneys, including six gas turbine units and four chimneys.

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**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**


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- Turboservices is licensed to operate this equipment at the contract facility. This certificate was obtained in relation to the Test Cell facility operated by Turboservices that is used to test and verify the power output of overhauled gas turbines before they are returned to customers.

**1.8 SUPPLY DEPENDENCIES**

- There are no raw material purchases per se as Deleum Group is in the provision of Supporting Specialised Products and Services.
- The Group's purchases primarily comprise equipment, systems and spare parts, which are used to facilitate the provision of products and services to the Oil and Gas Industry. Some of the purchases include:
  - Gas turbine packages and spare parts;
  - Wellhead and Christmas Tree spare parts;
  - Oilfield chemicals including drag reducing agents;
  - Wireline tools and spare parts;
  - Seamless stainless steel pipes and drill bits.
- The Group's purchases of these types of equipment, systems and spare parts are primarily imported for the following reasons:
  - Malaysia is a net importer of these types of specialised equipment, systems and spare parts for the Oil and Gas Industry as there are no local producers available.
  - Due to the stringent requirements and specifications of the Oil and Gas Industry, the customer usually specifies the source of purchases of these types of equipment and systems.
- The import value of Gas Turbines declined at an average annual rate of 8.4% between 2002 and 2006. In 2006, provisional data indicated that the import value of Gas Turbines declined by 23.2%, to RM274.0 million.
- The import value of Gas Compressors for Hydrocarbon Drilling declined at an average annual rate of 26.9% between 2002 and 2006. In 2006, provisional data indicated that the import value of Gas Compressors for Hydrocarbon Drilling declined by 72.8% to RM16.4 million.
- The import value of Parts and Accessories for Drilling Rigs increased at an average annual rate of 23.4% between 2002 and 2006. In 2006, provisional data indicated that the import value of Parts and Accessories for Drilling Rigs increased by 109.1%, to reach RM258.1 million.

*(Source: Department of Statistics)*

**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**

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**VITAL FACTOR CONSULTING**  
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**1.9 DEMAND**

- The level of Investment made by PETRONAS and Petroleum Sharing Contract (PSC) operators in the Exploration and Production segment of the Oil and Gas Industry in Malaysia increased at an average annual rate of 21.7% between the financial years ended 31 March 2000 and 31 March 2006. Investment during the financial year ended 31 March 2006 increased by 30.9% to RM16.1 billion.
- The number of Exploration Wells Drilled increased at an average annual rate of 14.3% between the financial years ended 31 March 2002 to 31 March 2006. During the financial year ended 31 March 2006, a total of 53 Exploration Wells were drilled.

*(Source: PETRONAS)*

**1.10 DEMAND DEPENDENCIES**

- The demand for Supporting Products and Services will be primarily dependent on the performance of the Oil and Gas Industry in Malaysia.
- Production of Oil and Gas in Malaysia may be classified into two broad categories:
  - Production of Crude Oil and Condensates;
  - Production of Natural Gas.
- The demand for supporting products and services, particularly those related to Exploration and Production, is also dependent on the number of recently-signed Production Sharing Contracts.
- In addition, the increase in the investment on Exploration and Production activity by PETRONAS and PSC operators will have a direct impact on the demand for Supporting Products and Services.
- The following is the performance of the Oil and Gas Industry in Malaysia, including the level of investment and activity in upstream Exploration and Production, and downstream activities such as petroleum products, which may have impact on the demand for Supporting Products and Services:
  - The level of Investment made by PETRONAS and PSC operators in the Exploration and Production of Oil and Gas Industry in Malaysia increased at an average annual rate of 21.7% between the financial years ended 31 March 2000 and 31 March 2006. During the financial year ended 31 March 2006, investment increased by approximately 30.9% to RM16.1 billion;

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**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**


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**VITAL FACTOR CONSULTING**

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- Offshore Seismic Survey data recovered declined at an average annual rate of 6.4% between 2002 and 2004. The amount of Offshore Seismic Survey data recovered in 2006 was 14.3% higher compared to 2004. A total of 439,182 line kilometres of seismic data were recovered in 2006;
- Between 2000 and 2006, a total of 28 Production Sharing Contracts were signed between PETRONAS and PSC operators. The number of Production Sharing Contracts in operation between PETRONAS and PSC operators increased from 41 in 2002, to a historic high of 60 in 2006. Of these, 18 of the PSC in operation are in deepwater and ultra-deepwater areas. In 2006, a total of 9 PSC were signed;
- Daily Crude Oil and Condensates production increased at an average annual growth rate of 1.0% between the financial years ended 31 March 2002 and 2006. During the financial year ended 31 March 2006, production of Crude Oil and Condensates declined by 5.0% to 699,100 Barrels of Oil Equivalent (BOE) per day;
- Daily Natural Gas Production increased at an average annual growth rate of 0.9% between the financial years ended 31 March 2002 and 2006. During the financial year ended 31 March 2006, production of Natural Gas increased by 0.2% to 957,000 BOE per day;

*(Source: PETRONAS)*

- Between 2002 and 2006, sales value of the manufacture of Refined Petroleum Products grew at an average annual rate of 39.1%. In 2006, sales value increased by 14.1% to reach RM82.4 billion;
- The sales value of the Retail and wholesale trade of Petrol, diesel, lubricants and others grew at an average annual rate of 6.0% between 2000 and 2004. In 2004, the sales value of the retail and wholesale trade of Petrol, diesel, lubricants and others grew by 6.7% to reach the value of RM6.9 billion.

*(Source: Department of Statistics)*

- The continuing growth in the production of Oil and Gas and investment on Exploration activities will inadvertently create demand for Supporting Products and Services. In addition, the number of PSC operators will also increase the potential customer base for operators such as Deleum Group.

11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)



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**1.11 COMPETITIVE NATURE AND INTENSITY IN MALAYSIA**

**1.11.1 Competitive Conditions**

- Supporting Product and Service Providers in the Oil and Gas Industry face **normal** competitive conditions, in that operators normally have to compete with each other for business.
- However, there are some conditions as follows:
  - Only operators that are licensed or registered by PETRONAS are allowed to bid directly for work provided by PETRONAS and Production Sharing Contract operators in the Oil and Gas Industry.
  - Operators who wish to carry out construction work in Malaysia are required to register with the Construction Industry Development Board (CIDB) under the Construction Industry Development Board Act 1994.
  - All builders, contractors and sub-contractors (including operators carrying out civil engineering, mechanical and electrical works) who wish to tender for Government projects must also register with Pusat Khidmat Kontraktor (PKK) of the Ministry of Entrepreneur Development.
  - All operators who wish to obtain contracts from the Government or to bid directly for work provided by PETRONAS and Production Sharing Contract operators in the Oil and Gas Industry are required to register as contractors with the Ministry of Finance (MoF).
- Thus, although operators within the Supporting Product and Services in the Oil and Gas Industry operate under normal competitive conditions, it is imperfect due to the requirements for licensing and registration that partly inhibits free competition.
- As with most free enterprise environments, once all the licensing and registration requirements are complied, competition is based on a number of factors, including:
  - Technical compliance to customers' specifications and requirements;
  - Quality products and services
  - Cost competitiveness;
  - Prompt delivery/completion.
- An additional competitive factor that concerns Supporting Products and Service Providers is the ability to demonstrate a good safety record, typically measured by work time between work-related fatalities and lost time accidents or incidents. PETRONAS and other major Oil and Gas Industry operators typically require that their suppliers provide proof that they have a good health and safety record when submitting bids for contracts.



**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**

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**1.11.2 Basis of Competition**

- The basis of Competition within the Supporting Product and Service Providers in the Oil and Gas Industry is mainly as follows:
  - Most work contracts are based on open tender. This system creates a normal competitive environment;
  - In virtually all open tender situations, once the technical specifications are fully complied, the bid with the lowest price wins;
  - For large, complex and high value jobs, in many situations, international firms with highly reputable track records are involved in the bidding process;
  - In many situations there are many bidders with the relevant credentials for tender and non-tender jobs;
  - However, competition is restricted to companies with the relevant licences and registrations from PETRONAS and various Government bodies.

**1.12 OPERATORS IN THE INDUSTRY**

**1.12.1 Gas Turbine Sector**

- The total number of Gas Turbine manufacturers is limited, as a high degree of technical expertise is required to successfully design, develop, and manufacture Gas Turbines. Virtually all Gas Turbines used in Malaysia are imported.
- The principal global manufacturers of Gas Turbines that may be suitable for use in the Oil and Gas Industry include:
  - Solar Turbines Inc.;
  - General Electric Corp.;
  - Rolls-Royce plc;
  - Siemens AG;
  - Kawasaki Heavy Industries, Inc.
  - Hitachi;
  - Mitsubishi Power Systems
  - MTU Aero Engines.

*(Source: Market Research undertaken by Vital Factor Consulting Sdn Bhd)*

- Global Gas Turbine manufacturers operating in Malaysia are typically supported by local partners.

**1.13 BARRIERS TO ENTRY**

- Barriers to entry as a provider of Supporting Products and Services to the Oil and Gas Industry in Malaysia are **high**.

11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)



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- Some of the key barriers to entry are as follows:

**Government Policies**

- Under the Petroleum Development Act, 1974 and related legislation, activities within the Oil and Gas Industry in Malaysia are regulated by PETRONAS. Companies wishing to participate in a particular area of the Oil and Gas Industry are required to either obtain the corresponding licenses from PETRONAS, or successfully register as a service or product provider. Licensing or registration is required for both the provision of products and services.
- This is due to the critical nature of the Oil and Gas Industry particularly in adherence to safety standards, product and service quality, and the high technical skill requirements. As a result of these stringent requirements, not many operators are able to qualify as an approved vendor of PETRONAS.
- As such, Government policies would pose as a barrier to entry for new entrants.

**High Technical Skills**

- The Oil and Gas Industry, including the provision of Supporting Products and Services, is highly technical in nature involving a certain degree of specialisation and substantial specialist knowledge.
- Due to the hazardous nature of Oil and Gas exploration and production, there are stringent requirements in safety compliance and standards in every aspect from the use of equipment, systems and structures through to the services and maintenance of equipment.
- The level of technical skill and knowledge required is generally high. Some of the Supporting Products and Services that require a high degree of technical skill and specialisation includes:
  - design and manufacture of sub-sea production systems, including subsea trees, subsea manifolds, umbilicals, and surface control systems;
  - servicing and maintenance of equipment and systems for example gas turbines and subsea well head systems
- The high degree of technical skill and/or technological know-how, including the use of proprietary or patented technology, effectively creates a **high** barrier to entry into certain sectors of the Oil and Gas Industry.

11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)

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- Although a high degree of technical skill and/or technological know-how may not be required for entry into other sectors of the Oil and Gas Industry, the possession of such skills and know-how is a distinct competitive advantage. New entrants with no skills or know-how are likely to be excluded from winning all but the simplest contracts.
- Although technology may be purchased or licensed, technical skill and experience are required.

**Track Record**

- Track record also forms a **high** barrier to entry for new entrants. New entrants without any track record will be at a disadvantage when competing for contracts in the Oil and Gas Industry.
- Track record is important, as products and services demanded by the Oil and Gas Industry tend to be critical in nature, and as such a customer typically requires some assurance that an operator is able to properly fulfil the contract. Having established a proven track record goes a long way in providing this assurance.
- In this respect, established operators with a proven track record have a distinct advantage over new entrants.

**Access to Technology**

- Access to technology is a **high** barrier to entry for new entrants. The range of supporting products and services offered will probably be limited unless the new entrant has access to technology, either developed in-house or through strategic alliances. As the requirements of the Oil and Gas Industry are very stringent, any untested technologies or untested supplier/operator of technologies would need to undergo stringent testing over a period of time before the technologies or the operators are accepted.
- As most principals owning tested technologies have formed partnerships with local operators, there are few technologies left for new entrants to form technology and service partnerships for deployment.

**Capital Cost**

- Start-up costs are generally a **high** barrier to entry for new entrants. Participation in a large number of Oil and Gas Industry niches requires substantial capital investment, particularly in terms of specialised equipment and technology. For example, a new entrant wishing to offer offshore drilling services will have to fabricate or lease an offshore drilling platform.

**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**

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- A new entrant that is unable to make a substantial capital investment is likely to be restricted to dealing in generic product and services, where the new entrant is likely to face competition from a large number of incumbent operators.

**1.14 BARRIERS TO EXIT**

- Barriers to exit from the Oil and Gas Industry are **moderate to high**.
- Some machinery and equipment utilised in the Oil and Gas Industry may be sold to other industrial users. For example, gas turbine packages may also be utilised for industrial power generation. However, it should be noted that the cost associated with decommissioning and transporting equipment from production, particularly those located offshore or in remote areas, may be high.
- It may be more difficult to convert more specialised equipment for other industrial uses. However, this equipment may be sold to other operators in the Oil and Gas Industry.

**1.15 INDUSTRY OUTLOOK AND GROWTH FORECAST**

**1.15.1 Outlook and Growth Forecast of the Supporting Products and Services for the Oil and Gas Industry**

- The outlook for the Supporting Products and Services for the Oil and Gas Industry in Malaysia is **favourable**.
- The Supporting Products and Services for the Oil and Gas Industry in Malaysia is forecasted to grow by **5% to 8%** per annum for the next five years.
- The outlook for the Supporting Products and Services for the Oil and Gas Industry as a whole is dependent on the outlook of the overall Oil and Gas Industry. As such, the favourable outlook of the Supporting Products and Services for the Oil and Gas Industry in Malaysia is based on the following observations and analyses:

**Local Exploration Activity**

- Between the financial years ended 31 March 2000 and 31 March 2006, Investment in the Exploration and Production sectors of the Malaysian Oil and Gas Industry by PETRONAS and PSC operators increased at an average annual rate of 21.7%. In 2006, investment increased by 30.9% to RM16.1 billion;

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**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**


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- Between the years ended 31 March 2001 and 31 March 2006, a total of 28 Production Sharing Contracts were signed between PETRONAS and PSC operators. During the financial year ended 31 March 2006, 9 PSC were signed and a record 60 PSC were in operation;
- Offshore Seismic Survey activity declined at an average annual rate of 6.4% between the years ended 31 March 2002 to 31 March 2004. During the year ended 31 March 2004, Offshore Seismic Survey data recovered increased by 9.3% to 384,247 line kilometres. The amount of Offshore Seismic Survey data recovered in 2006 was 14.3% higher compared to 2004. A total of 439,182 line kilometres of seismic data were recovered in 2006;
- The number of Exploration Wells drilled increased at an average annual rate of 14.3% between the years ended 31 March 2002 to 31 March 2006. During the year ended 31 March 2006, a total of 53 Exploration Wells were drilled;

(Source: PETRONAS)

**Local Production**

- Between the financial years ended 31 March 2002 and 2006, daily Crude Oil and Condensates production increased at an average annual growth rate of 1.0%. During the financial year ended 31 March 2006, production of Crude Oil and Condensates declined by 5.0% to 699,100 BOE per day;
- Between the financial years ended 31 March 2002 and 2006, daily Natural Gas Production increased at an average annual growth rate of 0.9%. During the financial year ended 31 March 2006, production of Natural Gas increased by 0.2% to reach 957,000 BOE per day;

(Source: PETRONAS)

**Exports**

- Between 2002 and 2006, the export value of Crude Petroleum increased at an average annual rate of 28.8%. In 2006, export value increased by 7.7% to reach RM32.6 billion;
- Between 2002 and 2006, the export value of Refined Petroleum Products increased at an average annual rate of 29.8%. In 2006, export value increased by 26.2% to reach RM19.2 billion;
- Between 2002 and 2006, the export value of Natural Gas increased at an average annual rate of 23.9%. In 2006, export value increased by 12.0% to reach RM23.3 billion;

(Source: Department of Statistics)

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**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**


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### Imports

- Between 2002 and 2006, the import value of Gas Turbines, which comprises "Gas Turbines of Power Not Exceeding 5,000 kW" and "Gas Turbines of Power Exceeding 5,000 kW", declined at an average annual rate of 8.4%. In 2006, provisional data indicated that import value declined by 23.2% to RM274.0 million;
- Between 2002 and 2006, the import value of "Gas Turbines of Power Not Exceeding 5,000 kW" increased at an average annual rate of 10.0%. In 2006, provisional data indicated that import value declined by 15.0% to RM52.8 million;
- Between 2002 and 2006, the import value of "Gas Turbines of Power Exceeding 5,000 kW" declined at an average annual rate of 11.0%. In 2006, provisional data indicated that import value declined by 25.0% to RM221.2 million;
- Between 2002 and 2006, the import value of "Gas Compressors for Hydrocarbon Drilling" declined at an average annual rate of 26.9%. In 2006, provisional data indicated that import value declined by 72.8% to RM16.4 million;
- Between 2002 and 2006, the import value of "Parts and Accessories for Drilling Rigs" increased at an average annual rate of 23.4%. In 2006, provisional data indicated that import value increased by 109.1% to reach RM258.1 million.

*(Source: Department of Statistics)*

### 1.16 DRIVERS OF GROWTH

- Some of the drivers of growth for the Oil and Gas Industry, and Supporting Products and Services for the Oil and Gas Industry are as follows:

- **Market Price of Hydrocarbons Sustained at a High Level**

Sustained high market price for hydrocarbons is likely to encourage hydrocarbon producers to maintain production at a high level, or even to increase production. In turn, a high level of production is likely to drive growth in the demand for Supporting Products and Services to increase the efficiency and/or production capacity of existing production facilities.

In addition, a sustained high market price for hydrocarbons may lead to the development of marginal or previously commercially unviable deposits. The development of these hydrocarbon deposits will drive growth in the Oil and Gas Industry, and of Supporting Products and Services.

11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (*Cont'd*)

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PETRONAS reported that during the year ended 31 March 2006, operators intensified exploration, development and production activities to capitalise on the high oil price scenario.

The market prices of hydrocarbons are continued to be relatively high (in nominal terms) in early 2007, after increasing in 2005 and 2006. This in turn has driven high level of activity in the Oil and Gas Industry, including in the provision of Supporting Products and Services.

- **Technological Advances**

Technological Advances that enhance production efficiency, lower Production cost, or enable Production to take place in previously inaccessible areas are likely to increase demand for Supporting Product and Service Providers, particularly for providers with access to these Technological Advances. Existing hydrocarbon producers may be inclined to apply these technological advances to increase production efficiency, lower cost or improve recovery rates.

Technological Advances that enable production in previously inaccessible areas may drive growth by bringing new deposits into production. This drives growth of Supporting Product and Service Providers.

- **PETRONAS Policy and Leadership**

PETRONAS has a policy of nurturing the development of local Oil and Gas Industry operators, including Local Supporting Product and Services Providers.

In addition, PETRONAS encourages Malaysian operators to participate in the Oil and Gas Industry overseas. Qualified Malaysian Oil and Gas Industry operators, including Local Supporting Product and Services Providers, are encouraged to support PETRONAS' foreign operations.

As at 31 March 2006, PETRONAS had interests a total of 62 upstream (exploration and production) ventures in 23 overseas countries (*Source: PETRONAS*).

- **Opening of Acreage for New Exploration**

The opening of new blocks of Malaysian territorial waters for exploration, development and production will create new demand for supporting products and services.

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**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**


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With a large proportion of shallow water (generally with depth of less than 200 metres) already allocated to PSC operators, the opening of new acreage is most likely to be for deep-water exploration, development and production.

Between 1976, when the current PSC model was initiated, and October 1999, PETRONAS has signed a total of 70 Production Sharing Contracts with various Oil and Gas Industry operators.

9 new PSC were signed during the year ended 31 March 2006, and a historical high of 60 PSC were in operation in Malaysia (*Source: PETRONAS*).

**1.17 AREAS OF GROWTH AND OPPORTUNITIES**
**Overseas Operations**

- The Malaysian Oil and Gas Industry is large, and has been able to sustain the development of local operators. However to grow further it is important that these operators operate in other markets.
- It is also important to venture to new areas to survive beyond the depletion of Malaysia's own hydrocarbon resources, although given the current size of reserves and production rate this is not likely to happen in the near or medium term.

**Technological Advancement**

- The Oil and Gas Industry is driven by technology, and operators are generally willing to adopt new technologies. This is particularly true for advances that increase production efficiency, decrease cost of production, and/or enable production in previously inaccessible areas.
- Development of technological advance that fits one or more criteria is likely to create an opportunity for operators that are able to provide that technology.
- Examples of such technology developed in the past includes:
  - Seismic survey utilising computer technology;
  - Directional and multilateral drilling;
  - Floating Production, Storage and Offloading vessels and Floating Storage and Offloading Vessels;
  - Deep sea production platforms;
  - De-waxing and other Production chemicals.

**Sustained High Price of Hydrocarbons**

- The expectation that high market price for hydrocarbons can be sustained should encourage development of marginal fields.



**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**

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**VITAL FACTOR CONSULTING**

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- With the high market price for hydrocarbons, the expected value of the extractable hydrocarbons rises such that the expected return from production becomes economically viable.
- Development of marginal fields is likely to create an opportunity for operators that able to provide supporting products and services to enable production from these fields.
- High hydrocarbon prices could also revive some old wells that still contain some proportion of reserves to be commercially viable for extraction.
- PETRONAS reported that during the year ended 31 March 2006, operators intensified exploration, development and production activities to capitalise on the high oil price scenario (*Source: PETRONAS*).

**1.18 THREATS AND RISK ANALYSIS**

**Sustained Fall in the Market Price of Hydrocarbons**

- Hydrocarbons, including crude petroleum and natural gas, are internationally traded commodities whose price fluctuates with the constant interaction between supply and demand for hydrocarbons. Factors such as geopolitical factors and unforeseen supply disruptions may also influence the market price of hydrocarbons.
- Activity in the Oil and Gas Industry is, to some degree, affected by fluctuations in the market price of hydrocarbons:
  - Activity tends to increase during periods of sustained high hydrocarbon prices. This is due to elevated production activity, as well as increased activity to bring reserves into production, and to explore for new hydrocarbon reserves;
  - Activity tends to decline during periods of sustained low hydrocarbon prices. This is due to lower production activity, as well as temporarily reducing or shutting down production from reserves that are no longer commercially viable. Exploration activity tends to continue, however.
- There is a risk that sustained lower price of hydrocarbons will negatively affect activity in the Oil and Gas Industry, leading to lower demand for Supporting Products and Services.

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**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**


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**Mitigating Factor**

- OPEC, a grouping that includes many of the world's largest petroleum producing nations, has some influence on the price of hydrocarbons through their control of a sizable proportion of the world's production capacity and reserves. Although the influence of OPEC over the market price of hydrocarbons is not absolute, OPEC has a vested interest in ensuring that hydrocarbon prices do not collapse, and as such are likely to actively attempt to sustain hydrocarbon prices at an 'acceptable' level.

**Downturn in Local and Global Economies**

- Any prolonged and/or widespread downturn in the global economy is likely to negatively affect the global demand for, and production of, hydrocarbons. This, in turn, is likely to negatively affect demand for Supporting Products and Services in Malaysia, as Oil and Gas Industry activity in Malaysia slows down.

**Mitigating Factors**

- A global economic slowdown may not automatically lead to a sustained fall in the market price for hydrocarbons, as the demand for hydrocarbons for power generation and transport tends to be relatively inelastic.
- The Malaysian Government has shown to have taken pro-active policies in mitigating negative impacts of global economic downturn through stimulus packages to boost domestic spending and demand in countering a slowdown in the local economy.

**Dependency on Strategic Partners**

- Suppliers of Supporting Products and Services to the Oil and Gas Industry are dependent on their strategic partners to the extent that they rely on these partners for critical systems, components, services, or technology in the provision of Supporting Products and Services. Any disruption or break in the relationship with their strategic partners has a negative impact on their ability to supply Supporting Products and Services to their clients.
- Strategic partners may supply the following services, systems, equipment, and raw materials:
  - Gas turbine power generating packages;
  - Support for gas turbine technical services;
  - Offshore production platforms;
  - Offshore drilling rigs;
  - Seismic survey services;
  - Oilfield and other chemicals, and related services.
- As the number of suitable strategic partners for the supply of most critical services, systems, equipment and raw materials is likely to be small, it may be difficult to source these items from an alternative source should a disruption occur.

**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**

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**Mitigating Factors**

- The stability and robustness of strategic partnerships can be enhanced through equity participation through joint ventures.
- In addition, there should generally be a lower probability of disruption affecting long-standing strategic relationships.

**Depletion of Hydrocarbon Resources**

- All hydrocarbon deposits are non-renewable, in that it is not possible to regenerate these hydrocarbons within a reasonable timeframe once they have been extracted. As such, Hydrocarbon resources in all Hydrocarbon producing regions, including Malaysia, will eventually be depleted.
- It is likely that demand for Supporting Products and Services in Malaysia will end soon after Oil and Gas Industry Exploration and Production activities ceases in Malaysia.

**Mitigating Factors**

- The relatively long period of time before current reserves Crude Oil (including Condensates) in Malaysia are expected to be completely depleted enables Oil and Gas Industry operators, including fabricators of offshore platforms and skidded systems, to diversify into other industries and/or venture into overseas markets.
- The National Depletion Policy introduced in 1980 to safeguard the exploitation of the natural oil reserves by postponing development and control the production of major oil fields (with reserves of 400 million barrels or more) will also ensure that extraction is carefully managed and sustainable over the long term.
- Current reserve estimates tend to be conservative and may underestimate the actual amount of hydrocarbons that is ultimately extracted, as they do not take into account the following:
  - the existence of currently undiscovered hydrocarbon reserves;
  - technological advances that increases the amount of hydrocarbons that may be commercially extracted from existing reserves;
  - technological advances that enable production from previously inaccessible regions.
- As such, activity in the Oil and Gas Industry in Malaysia may very well continue beyond the currently estimated date of complete Hydrocarbon Reserve depletion.

**11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**

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**Change in PETRONAS Policy**

- A fundamental change in PETRONAS policy with regards to regulating the Oil and Gas Industry in Malaysia can take either one of two forms:
  - Liberalisation of the Oil and Gas Industry;
  - Nationalisation of the Oil and Gas Industry.
- PETRONAS may liberalise the Oil and Gas Industry by:
  - Removing licensing requirements for the provision of all supporting products and services;
  - Loosening licensing requirements such that it becomes easier to obtain a license;
  - Allowing foreign suppliers to operate in Malaysia without restrictions and the need to operate with a local partner.
- Liberalising the Oil and Gas Industry in this manner will negatively impact incumbent operators by increasing competition in the industry.
- Nationalisation of the Oil and Gas Industry will prevent all private companies from operating in the Oil and Gas Industry in Malaysia.

**Mitigating Factors**

- Malaysia as an open market and dependent on foreign investments would not likely nationalise any industry for fear of frightening off foreign investments.
- Currently, despite the restriction of licensing and registration, competition is intense. In the event of any liberalisation, existing operators would not be any worst off as they have been operating in a very competitive environment already.
- On the contrary, the liberalisation of the Oil and Gas Industry may provide benefits to existing operators as they may be able to enter new areas that leverage from their existing strengths and customer base.

**1.19 THREAT OF SUBSTITUTES**

- There are limited practical substitutes for most of the Exploration and Production technologies, products and services. As such, Deleum Group faces limited threat of substitutes.
- One potential exception is in the use of Reciprocating Engines in place of Gas turbines for power generation on offshore production platforms.