6. INFORMATION ON THE SGB GROUP

6.1 HISTORY AND BUSINESS

SGB was incorporated in Malaysia under the Act on 9 February 2002 as a public limited company under its present name. SGB is principally an investment holding company with the subsidiary and associated companies segregated into three distinct business divisions – the oil and gas division, the transportation engineering division and the fleet management division.

KMC was incorporated in Malaysia under the Act on 27 February 1982 as a private limited company under the name of First Penaga Trading Sdn Bhd. Founded by Tan Sri Dato' Dr Abdul Aziz bin Zain, the company commenced operations as a marketing agent for chemicals, barite and bentonite, and subsequently changed its name on 3 April 1985 to Kota Tanah Trading Sdn Bhd. KMC adopted its present name on 7 July 1987. In early 1990, KMC progressed from marketing activities to the manufacture of barite with the commissioning of its first milling facilities at KSB in Terengganu. In 1992, KMC ventured into the provision of drilling fluids and mud engineering services to the domestic oil and gas industry with full engineering and technical support from Magcobar-Imco Drilling Fluids Inc as the principal company.

Scomi was incorporated in Malaysia under the Act on 30 August 1990 as a private limited company under its present name, when a group of professionals came together to form an integrated transportation engineering company that would meet the increasing discerning needs of the Malaysian transportation industry. Scomi commenced its operations as a general road transport fabricator. These professionals, who had spent the better part of their careers in the same industry, realised that the rapid growth of the country as a major trading nation would demand a sophisticated, cost-effective transportation industry that guarantees the efficient movement of goods and services with little or no downtime. A major prerequisite for the development of a transportation industry along these lines would be hardware support that is of consistently high quality and reliability.

With this strategy in mind, this group of professional and technical managers started manufacturing quality road transport equipment for the transportation industry. The business grew rapidly and within a short period of time, the company believes that Scomi's brand name, KING'S, had become synonymous with quality transport equipment and a common feature not only on the Malaysian roads but throughout the region as well.

In 1993, Scomi acquired the entire equity interest in KMC from, *inter-alia*, Tan Sri Dato' Dr Abdul Aziz bin Zain in a bid to expand and diversify its businesses. Tan Sri Dato' Dr Abdul Aziz bin Zain, who was appointed as a director of Scomi, continued to manage the KMC business together with the board of directors of Scomi. In the same year, KMC embarked on a rapid localisation programme such that by 1997, the mud engineering division of KMC, which accounted for more than 60% of Scomi group of companies' turnover at that time, was almost fully operated by Malaysians.

In June 1996, KMC gained recognition from PETRONAS as a self-operating drilling fluids and mud engineering service provider. To date, KMC remains the only fully Malaysian-owned licensed self-operator which is actively involved in the provision of drilling fluids and mud engineering services to the domestic oil and gas industry.

In mid-1996, KMC diversified into the trading of industrial chemicals for the domestic oil and gas and other general industries. Two years later in August 1998, KMC further expanded into the provision of supply and services of oil and gas production chemicals through its 49%-owned associated company, Sosma.

The provision of drilling fluids and mud engineering services remains as KMC's core business activity. To date, KMC has supplied drilling fluids for the drilling of over 600 wells in Malaysia comprising both water-based and oil-based drilling fluid systems.

Scomi has similarly developed its business over the years from a traditional general road transport fabricator to a manufacturer of specialised road equipment, such as airport ground support equipment, as well as the provision of related engineering support services. Today, Scomi believes that it is the only local manufacturer of aircraft refuellers and hydrant dispensers in Malaysia and is amongst the leading manufacturers of airport ground support equipment in the South-East Asian region.

Scomi's products gained international recognition when Scomi won the international bidding projects and successfully delivered its product to countries like Brunei, Hong Kong, Singapore, Thailand, Taiwan, Sri Lanka and Indonesia.

In 2001, Scomi ventured into the manufacturing of precision engineering products through its subsidiary company, SCOPE. To date, it has secured a contract to supply specified precision engineering components and parts to a Dubai-based customer.

In line with the Group's expansion plan, Scomi has on 9 August 2002 acquired 100% equity interest in SMAS, a "hire and drive" company mainly focused on transient as well as long-term rental of corporate vehicles. The acquisition forms part of the Scomi group of companies' plan to take advantage of certain tax incentives and opportunities in the corporate and commercial fleet management businesses.

6.2 SHARE CAPITAL

The present authorised share capital of SGB is RM100,000,000 comprising 200,000,000 Shares.

The present issued and paid-up capital of SGB is RM43,835,500 comprising 87,671,000 Shares. Upon completion of the Public Issue, the enlarged issued and paid-up share capital of SGB will be RM50,000,000 comprising 100,000,000 Shares.

Details of the changes in the issued and paid-up share capital of SGB since its incorporation are as follows:

Date of allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
09.02.2002	2	1.00	Subscribers' shares	2
04.03.2002	4	0.50	Sub-division of par value	2
31.03.2003	87,670,996	0.50	Issued as consideration for the Acquisition	43,835,500

Save for the Options to be granted pursuant to the Group's Proposed ESOS, there are no outstanding warrants, options, convertible securities or uncalled capital in SGB.

6.3 FLOTATION SCHEME

In conjunction with, and as an integral part of, the listing of and quotation for the entire issued and paid-up share capital of SGB on the Second Board of KLSE, the Company undertook a restructuring exercise, which was approved by the SC on 7 October 2002, 6 March 2003 and 31 March 2003, MITI on 30 September 2002, 1 October 2002, 25 February 2003 and 22 March 2003 and FIC on 20 June 2002, 28 June 2002 and 24 March 2003 respectively. Details of the restructuring exercise are as follows:

(a) Acquisition

On 23 April 2002, SGB entered into a conditional sale and purchase agreement with the shareholders of Scomi for the acquisition of 9,281,762 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Scomi for a total purchase consideration of RM46,906,071.

The said purchase consideration was wholly satisfied through the issuance of 87,670,996 new Shares to the shareholders of Scomi at an issue price of approximately RM0.54 per Share as follows:

Scomi shareholder	No. of Scomi shares acquired by SGB	% of the issued and paid-up share capital of Scomi	No. of new Shares issued as consideration
Kaspadu	2,882,520	31.1	27,226,878
Onstream Marine	3,461,260	37.3	32,693,373
AVSB	1,010,839	10.9	9,547,892
Tan Sri Dato' Dr Abdul Aziz bin Zain	532,500	5.7	5,029,736
Lim Fong Peng	369,390	4.0	3,489,078
Tay Kheng Seng	274,000	2.9	2,588,070
Ng Chun Hoo	221,430	2.4	2,091,520
Lee Yau Hui	137,970	1.5	1,303,197
Ng Hong Tee	137,970	1.5	1,303,197
Bumiputra-Commerce Bank Berhad	100,000	1.1	944,551
Hajjah Noor Asiah Bte Dato' Mahmood	63,403	0.7	598,874
Liew Sin Yoke	48,000	0.5	453,385
Lee Choy Ngean	30,000	0.3	283,365
Ponnampalan a/l Rajaratnam	8,320	0.1	78,587
Chu Hee Yang	4,160	*negligible*	39,293
Total	**9,281,762**	**100.0**	**87,670,996**

The purchase consideration for the Acquisition was arrived at based on the audited consolidated NTA of Scomi as at 31 December 2001 of RM46,906,071.

The Acquisition was completed on 31 March 2003.

(b) Transfers by Scomi

Upon completion of the Acquisition, Scomi transferred its entire equity interest in KMC and SCOTS to SGB for a total consideration of RM5,551,250.

The total consideration of RM5,551,250 was arrived at based on the respective carrying values of Scomi's cost of investments in KMC and SCOTS as follows:

Companies	RM
KMC	5,051,250
SCOTS	500,000
	5,551,250

The Transfers by Scomi were financed *via* inter-company advances and were completed on 31 March 2003.

(c) **Public Issue**

In conjunction with the flotation of SGB on the Second Board of the KLSE, the Company will undertake a Public Issue of 12,329,000 new Shares representing approximately 12.3% of the enlarged issued and paid-up share capital of SGB at an issue price of RM1.38 per Issue Share, whereby:

(i) 2,500,000 Issue Shares representing 2.5% of the enlarged issued and paid-up share capital of SGB have been reserved for the Directors, eligible employees, suppliers and persons who have contributed to the success of SGB and its subsidiaries;

(ii) 6,829,000 Issue Shares representing approximately 6.8% of the enlarged issued and paid-up share capital of SGB will be placed to investors by the Placement Agent; and

(iii) 3,000,000 Issue Shares representing 3.0% of the enlarged issued and paid-up share capital of SGB will be made available for application by the Malaysian public.

(d) **Listing**

Following the completion of the Public Issue, SGB shall be admitted to the Official List of the KLSE and the entire enlarged issued and paid-up share capital of SGB of RM50,000,000 comprising 100,000,000 Shares shall be listed and quoted on the Second Board of the KLSE.

6.4 PROPOSED ESOS

SGB had on 7 October 2002 and 28 March 2003 obtained the approvals of the SC and the existing shareholders of the Company respectively, to establish an employees' share option scheme in order to retain and motivate the executive director and eligible employees who have contributed to the success of SGB and its subsidiaries (save for those subsidiaries which are dormant).

Barring any unforeseen circumstances, the Directors of SGB intend to grant Options under the Initial Grant prior to the Listing which are exercisable into a maximum of 9 million Shares, at an exercise price of RM1.38 per Share. However, such Options shall only be exercisable after the Listing and in accordance with the terms of the By-Laws constituting the Proposed ESOS.

The Directors of SGB intend to utilise the proceeds from the exercise of the Options for the Group's working capital purposes.

The salient features of the Proposed ESOS By-Laws, details and definitions of which are set out in Section 15 of this Prospectus, are summarised as follows:

(a) **Maximum number of Shares available under the Scheme**

The number of Options offered under the Scheme shall not exceed 10% of the issued and paid-up share capital of the Company at any one time.

However, in the event the aggregate exceeds the aforesaid ten percent (10%) as a result of the Company purchasing its own Shares in accordance with the provisions of Section 67A of the Act and reducing its issued and paid-up share capital, then all Offers and Options granted prior to the adjustment of the issued and paid-up share capital of the Company shall remain valid and exercisable in accordance with the provisions of this Scheme as if that reduction had not occurred.

The Company shall keep available sufficient unissued Shares in the share capital of the Company to satisfy all outstanding Offers and Options throughout the duration of the Scheme.

(b) **Eligibility**

To be eligible for participation in the Scheme, a person must satisfy the following conditions, as at the Offer Date:

(i) have attained the age of eighteen (18) years;

(ii) be employed by and on the payroll of the relevant company within the SGB Group; and

(iii) be confirmed in the employment of the SGB Group.

In addition to the foregoing, an executive director shall only be eligible to participate in the Scheme if he is on the payroll and is involved in the day-to-day management of SGB or any of its Eligible Subsidiaries.

Where an employee has been seconded from SGB or its Eligible Subsidiaries to either a subsidiary of SGB that is not an Eligible Subsidiary or an associated company of SGB, the Options Committee may, at its discretion, extend the benefit of the Scheme to such person.

In the case of:

(i) an employee who was employed in a company related to the SGB Group (within the meaning of Section 6 of the Act) but which does not fall within the definition of "SGB Group" ("Previous Company") and is subsequently transferred from the Previous Company to any Eligible Subsidiary; or

(ii) an employee who is in the employment of a Previous Company which subsequently becomes an Eligible Subsidiary as a result of a restructuring or divestment exercise or other exercise involving SGB and/or any company within the Group; and

that employee (the "Affected Employee") is confirmed, and has been, in the employment of the Previous Company for at least six (6) months of continuous service including service during any probation period, or in the case of an Executive Director, has served in such capacity in the Previous Company for a least six (6) months, the Affected Employee, if he satisfies all the conditions of these By-Laws, shall be eligible to participate in the Scheme.

(c) **Basis of allotment and maximum allowable allotment**

The number of new Shares that may be offered under the Options to any one of the Eligible Employees of the SGB Group who are entitled to participate in the Scheme shall be at the discretion of the Options Committee after taking into consideration the performance, seniority, number of years in service, employee gradings and/or the potential contribution of the Eligible Employee provided that:

(i) not more than fifty per cent (50%) of the Shares available under the Scheme would be allocated in aggregate, to the Executive Directors and Senior Management of the SGB Group; and

(ii) not more than ten per cent (10%) of the Shares available under the Scheme would be allocated to any individual Eligible Employee who either singly or collectively through his or her associates (as defined in the Companies Act 1965) holds twenty per cent (20%) or more in the issued and paid–up share capital of the Company.

The term "Senior Management" shall be subject to criteria to be determined by the Options Committee that may change from time to time and which criterion and any changes thereto shall be made known to the Eligible Employees.

(d) **Offer**

The Options Committee may at its discretion at any time and from time to time as it shall deem fit during the duration of the Scheme make one or more Offers to any Eligible Employee based on the criteria of allocation as set out in By-Law 6.

Subject to any adjustments that may be made under By-Law 14, any Offer shall not be less than one hundred (100) Shares and shall always be in multiples of 100 Shares. An Offer may be made upon such terms and conditions as the Options Committee may decide from time to time. The Offer is personal to the Eligible Employee and cannot be assigned, transferred, encumbered or otherwise disposed of in any other manner whatsoever.

(e) **Acceptance of Offer**

Unless otherwise determined by the Options Committee, an Offer must be accepted by the Eligible Employee within thirty (30) calendar days from the Date of Offer by way of a written notice of acceptance and in such manner as prescribed by the Options Committee, and accompanied by a payment to the Company of a sum of Ringgit Malaysia One (RM1.00) per Offer or such other amount of payment as may be determined at the discretion of the Options Committee as non-refundable consideration for the Option. The date of receipt by the Options Committee of such written notice shall constitute the Date of Acceptance.

If the Offer is not accepted in the aforesaid manner, such Offer shall upon the expiry of the period referred to in By-Law 8.1 be deemed rejected and shall be null and void and of no further effect, and the Shares comprised in such Options may, at the discretion of the Options Committee, be re-offered to other Eligible Employees.

The Options Committee shall within thirty (30) calendar days of the Date of Acceptance issue to the Grantee an Option certificate in such form as may be determined by the Options Committee. The Option cannot be assigned, transferred, encumbered or otherwise disposed of in any manner whatsoever, save as provided in By-Law 10.

(f) **Subscription price**

By-Law 7 stipulates that the price at which the Eligible Employee is entitled to subscribe for an Option:

(i) in the case of any Option granted prior to or on the Listing Date, shall be at the Public Issue Price; and

(ii) in the case of any Option granted after the Listing Date, shall be based on the volume weighted average market prices of Shares as quoted on the KLSE for the past five (5) consecutive Market Days prior to the date the Option is granted, save that a discount of not more than 10% may be given as may be determined by the Options Committee at its absolute discretion.

In any case, the Subscription Price shall not be lower than the par value of RM0.50 of the Shares.

(g) **Exercise of Options**

Except where it is otherwise specifically allowed under these By-Laws, the Option granted to a Grantee under the Scheme is exercisable by that Grantee only during his employment with the Group and within the Option Period.

Subject to By-Law 14 thereof, the Options Committee may, at any time and from time to time, before or after an Option is granted, limit the exercise of the Option to a maximum number of new Shares and/or such percentage of the total Shares comprised in the Option during such period(s) within the Option Period and impose any other terms and/or conditions deemed appropriate by the Options Committee in its sole discretion including amending/varying any terms and conditions imposed earlier.

Every such notice must be in the form prescribed by the Options Committee from time to time and shall be accompanied by a remittance for the full amount of the subscription monies for the new Shares in respect of which the notice is given. Within ten (10) Market Days from the receipt by the Company of the aforesaid notice and remittance from the Grantee, the Company shall, subject to the provisions of the KLSE Listing Requirements, Securities Industry (Central Depositories) Act, 1991 and the Rules of the Malaysian Central Depository Sdn Bhd:

(a) allot and issue the relevant number of new Shares;

(b) dispatch notices of allotment to the Grantee accordingly; and

(c) make an application for the quotation of such new SGB Shares.

All Options to the extent that they have not been exercised upon the expiry of the Option Period shall lapse and have no further effect.

In the event that a Grantee is subject to disciplinary proceedings (whether or not such disciplinary proceedings will give rise to a dismissal or termination of service) the Options Committee shall have the right, at its discretion, to suspend the Option pending the outcome of such disciplinary proceedings. The Options Committee may impose such terms and conditions as the Options Committee shall deem appropriate having regard to the nature of the charges made or brought against the Grantee PROVIDED ALWAYS THAT:

(i) in the event that such Grantee shall subsequently be found to be not guilty of the charges which give rise to such disciplinary proceedings, the Options Committee shall reinstate the rights of such Grantee to exercise his Option as if such disciplinary proceeding had not been instituted in the first place;

(ii) in the event the disciplinary proceeding results in a recommendation for the dismissal or termination of service of such Grantee, the Option shall immediately lapse and be null and void and of no further force and effect upon pronouncement of the dismissal or termination of service of such Grantee notwithstanding that such recommendation may be subsequently challenged by the Grantee in any other forum; and

(iii) in the event such Grantee is found guilty but no dismissal or termination of service is recommended, the Options Committee shall have the right to determine at its discretion whether or not the Grantee may continue to exercise his Option and if so, to impose such limits, terms and conditions as it deems appropriate, on such exercise.

(h) **Rights attaching to the Shares**

The new Shares to be issued pursuant to the ESOS will, upon allotment and issue, rank *pari passu* in all respects with the then existing issued and paid-up Shares provided that in the event if there is any right to participate in any rights, allotments or any distributions, the new Shares shall rank *pari passu* with the then existing Shares if the relevant exercise date is before the Record Date save and except that such Shares will not be entitled to any dividends or any distributions declared or to be declared in respect of financial years immediately preceding the financial year in which the new Shares were issued.

For the purpose hereof, Record Date means the date as at the close of business on which shareholders must be registered as shareholders in order to participate in any dividends, rights, allotments or any other distributions.

(i) **Listing and quotation of Shares**

The Company will apply to the KLSE for the listing of and quotation for all the new Shares to be allotted pursuant to the Scheme and will use its best endeavours to obtain permission for such listing and quotation.

(j) **Administration**

The Scheme shall be administered by the Options Committee consisting of such persons appointed by the Board from time to time. The Options Committee shall so administer the Scheme in such manner as it shall in its discretion deem fit. For the purpose of administering the Scheme, the Options Committee may do all such acts and things and enter into any transactions, agreements, deeds, documents or arrangements, and make rules, regulations or impose terms and conditions or delegate part of its power relating to the Scheme, as the Options Committee may in its discretion deem fit. The Board shall have the power from time to time to rescind the appointment of any person to the Options Committee as it deems fit.

(k) **Duration of the Scheme**

The Scheme shall be in force for a period of ten (10) years commencing from the date of the confirmation letter submitted by the Adviser to the SC that the Company:

(i) has fulfilled the SC's conditions of approval for the Scheme and that the By-Laws do not contravene the SC Guidelines; and

(ii) has obtained other relevant approvals for the ESOS and has fulfilled any conditions imposed therein.

Subject to approval of the relevant authorities including the SC and compliance with the requirements of the relevant authorities and the written consent of the Option holders, who have yet to exercise their Options, either in part or in whole, the Company in general meeting may, by ordinary resolution passed by the shareholders of the Company, terminate the continuation of this Scheme at any time and in such an event no further Offers shall be made by the Options Committee from the date of such resolution and all Offers outstanding but not accepted by the Eligible Employee at the date of the said resolution and the Options as yet unexercised or partially exercised shall be deemed to be terminated at the date of such resolution.

6.5 BUSINESS OVERVIEW

6.5.1 Oil and gas division

(a) Principal products and services

The upstream oil and gas industry remains as KMC's core business, contributing approximately 93.0% to the KMC Group's total turnover for the financial year ended 31 December 2002. This was derived from the provision of drilling fluids and related engineering services, or more commonly referred to as "mud engineering services". The principal products and services of the KMC Group can be broadly categorised into the following three major sectors:

- Provision of drilling fluids and mud engineering services to the upstream oil and gas industry;
- Supply of industrial chemicals to the downstream oil and gas and other general industries; and
- Supply of production chemicals to the upstream oil and gas industry.

Provision of drilling fluids and mud engineering services

In addition to the provision of drilling fluids and mud engineering services, the other activities within this sector include the milling and bulking of barite, the storage and supply of mineral-based oil and the provision of drilling equipment such as centrifuge for the removal of low-gravity solids from the drilling fluids.

A key part of KMC's principal activity is in the formulation of the blend of speciality chemicals for the production of drilling fluids. The formulation process is carried out specifically for each PSC based on the well bore specifications provided and represents a critical element in the bidding process for the provision of mud engineering services.

An overview of the principal drilling fluids provided by KMC and their respective properties and applications are set out below:

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Trade name	Properties and applications
LMO-2000	An ultra low toxicity mineral oil system for environmentally sensitive areas where high aromatic content is prohibited
LP-2000	A linear paraffin system using low molecular-weight and low viscosity synthetic base fluid for drilling highly deviated and "extended-reach" wells
LE-GREEN	An ester-based system which is environmentally friendly and stable up to 350°F (178°C) for drilling environmentally sensitive areas
LW-SALT	A low solid salt polymer system for drilling intermediate and production hole sections
LW-POLY	A polyglycol system for improved water base performance
LW-KCL	An inhibitive KCL PHPA Polymer System for drilling sensitive shale formations
LW-SIL	A silicate-based system for drilling water-sensitive formations
LW-CAL	A highly inhibitive mud system for drilling sensitive, highly dispersive and reactive shale formations
LW-FLO	A rheologically engineered "drill-in fluid" for horizontal and high angle walls
LW-TERM	A low-colloid, contaminant-resistant system for drilling in temperatures of up to 500°F (260°C)

In addition to the drilling fluids, KMC also provides mud engineering services which includes the formulation and treatment of drilling fluids to conform with the specifications provided by the PSCs.

Supply of industrial chemicals

For the financial year ended 31 December 2002, sales of industrial chemicals accounted for approximately 7.0% of the KMC Group's total turnover. KMC supplies over one hundred types of speciality and general chemicals to the downstream oil and gas industry, such as to oil refineries, gas and petrochemical plants. The range of chemicals offered by KMC includes MDEA, MEG, DEG, petroleum dyes, catalysts, caustic soda and solvents. In addition to the downstream oil and gas sector, KMC also supplies, albeit to a lesser extent, to other general industries including the textile, electronics and construction industries.

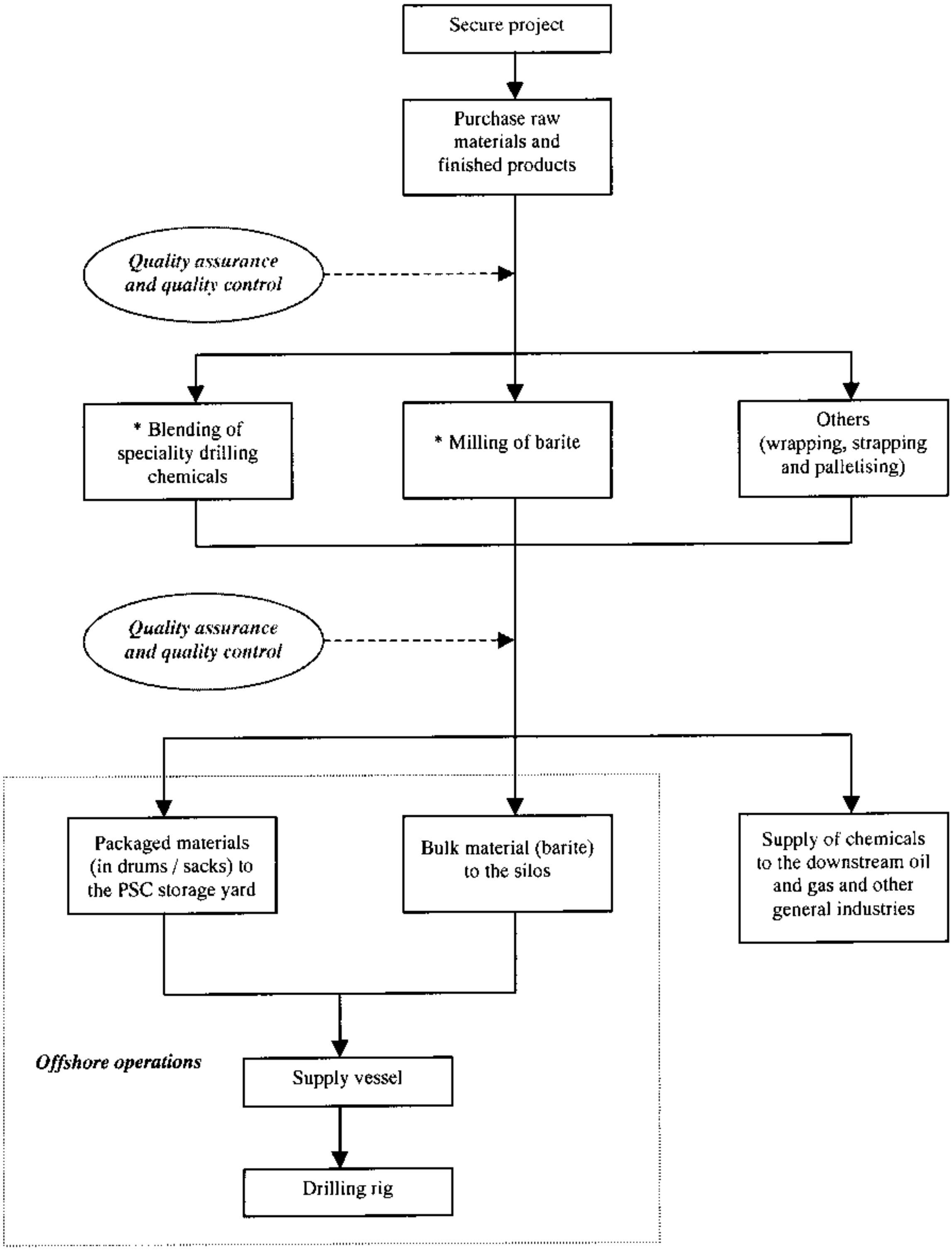
The industrial chemicals which are marketed by KMC, are sold mainly on a contractual basis and are generally supplied as a comprehensive package together with stocking, warehousing and related services.

Supply of production chemicals

The supply of production chemicals by KMC to the upstream oil and gas industry is carried out through its associated company, Sosma. The main production chemicals supplied by Sosma to the domestic oil and gas sector include demulsifiers and deoilers.

(b) **Business flow**

KMC currently operates from the two bonded supply bases at KSB in Terengganu and ASB in Labuan. A general overview of KMC's mud engineering operations at these two supply bases is set out below:



* *These facilities are not available at ASB*

(c) **Production facilities and supporting infrastructure**

The KMC Group's main infrastructure is situated on approximately 4 acres of leased industrial land at KSB. It has a total built-up area of approximately 64,400 square feet and is primarily used for the milling and bulking of barite and the blending of speciality drilling chemicals. It is also used for the provision of other operational supporting functions such as a fully equipped chemical laboratory to support daily offshore operations, a warehouse and office space.

An overview of the main infrastructure available at KSB is as follows:

- A semi-automated Raymond roller mill for the milling of barite, with a maximum production capacity of approximately 2,400 metric tonnes of barite per month, which is operating at maximum capacity;

- A fully equipped chemical laboratory for performing quality assurance and quality control on drilling fluid samples taken from offshore drilling operations. The laboratory assistant undertakes quality assurance and quality control on the incoming raw materials as well as the finished products;

- A chemical blending facility for the production of speciality oil-based mud chemicals, mainly the primary and secondary emulsifiers;

- Six silos with an aggregate bulking capacity of approximately 1,200 metric tonnes of barite. These silos are strategically located near the supply jetty of KSB to facilitate the handling and bulk transfer of loose barite and bentonite to the supply vessels;

- A 64,400 square feet warehouse cum office;

- A storage tank strategically located near the supply jetty at KSB with a total storage capacity of 2,500 barrels of mineral-based oil or drilling fluids. Apart from Magcobar-Imco Drilling Fluids Inc, KMC is the only other drilling fluids and mud engineering service provider in Malaysia with its own base-oil storage facility at KSB; and

- A drum crushing facility to compact used drums to approximately 4 inches of thickness before being sent back to the PSCs for disposal.

KMC has a separate warehouse cum office of approximately 24,000 square feet which is situated on a 2 acre piece of leased industrial land at ASB in Labuan. In addition, KMC has an office and a fully equipped chemical laboratory in Miri, Sarawak, to support the offshore operations of one of its main customers, Shell.

(d) **Procurement of projects**

The senior management team at KMC has on average more than 20 years of experience in the oil and gas industry. Together with its team of experienced and trained engineers and support staff, it is primarily responsible for the procurement of projects for the provision of drilling fluids and mud engineering services both in Malaysia and abroad. In Malaysia, this is effected via bidding processes with the PSCs. A typical bidding exercise would generally last approximately six months and commences when the PSC invites the licensed service providers such as KMC to bid for a specific project.

Following the receipt of the tender documents from the PSC Contractor, KMC will review the documents, detailing, *inter-alia*, the formation to be drilled and the nature of the well trajectory. The subsequent technical preparation process involves the preparation of a suitable mud formulation specific for the job.

Once a particular formulation has been identified, KMC's team of skilled and trained engineers will perform multiple rounds of laboratory testing on the formulation to verify its conformity with the PSC's specifications. Such tests would include subjecting the blend of chemicals to extreme temperatures and pressures, thereby emulating the conditions anticipated within the formation to be drilled. Once an optimum formulation has been established, KMC will submit the technical and commercial bid packages to the PSC for appraisal and final selection.

To technically qualify for the bid, an independent verification of the recommended formulation will also be undertaken at KMC's premises by a technical representative of the PSC to qualify the formulation recommended by KMC.

(e) **Quality control**

KMC implements stringent quality control procedures throughout its operations to ensure the high and consistent quality of its products and services. This is supported by its fully equipped chemical laboratories for the performance of quality assurance and quality control testing in support of its daily offshore operations. KMC's commitment is evidenced by the OHSAS 18001 certificate bestowed upon KMC on 26 November 2002 by Det Norske Veritas for conforming to the Occupational Health and Safety Assessment Series specification.

Quality control inspection occurs at various stages of KMC's operations, with the first being the inspection of the incoming raw materials. A Certificate of Analysis ("COA") which is issued by the chemical supplier accompanies every batch of chemicals that is delivered. As part of the quality control procedure, a sample is taken from each batch of the delivered chemicals and tested in-house at the group's laboratories to check on its conformation with the COA provided.

Further to the inspection of the incoming material, every batch of the mud chemicals and drilling speciality chemicals blended by KMC is also subject to stringent quality control testing. This is carried out in two forms - through in-house testing by KMC's quality control personnel as well as by a third party inspector commissioned by the PSCs to ensure the consistency and quality of the drilling fluids prior to their application for offshore drilling activities.

(f) **Availability of raw materials**

KMC's main raw materials are the speciality drilling chemicals, accounting for approximately 26.3% of the Group's total purchases for the financial year ended 31 December 2002. These chemicals are mainly imported from the US, and are generally purchased on a short-term contract basis of between one to three months with a lead delivery time of between four to six weeks. Other chemicals purchased by KMC include the proprietary and commodity chemicals. The proprietary chemicals such as KELZAN and XANVIS are imported directly by KMC from manufacturers world-wide whereas the commodity chemicals such as potassium chloride and salt are sourced directly from domestic wholesalers.

KMC practices a quarterly purchase plan for the replenishment of its raw material stock whereby an inventory controller will monitor the monthly stock utilisation and inventory level for each type of chemical, forecast the quarterly stock requirements and subsequently devise a stock replenishment schedule as per the lead times for delivery of the relevant materials. KMC generally maintains approximately two month's supply of chemicals in its storage facilities for each of its contracted customers.

The other major raw material utilised by KMC is barite ore. In Peninsular Malaysia, the States with barite ore reserves are Pahang, Kelantan and Terengganu. However, as the current level of barite ore reserves in Peninsular Malaysia is insufficient to meet the barite demand during the monsoon season, KMC has been importing a portion of its requisite amount of its barite ore requirement from China and Thailand on a 'need' basis. As barite ore is a restricted import item in Malaysia, KMC is required to obtain an import permit from MITI prior to importation.

To date, KMC has not experienced any difficulty in sourcing its raw materials.

(g) **Principal markets**

To date, KMC's drilling fluids and mud engineering services have been provided predominantly to the Malaysian oil and gas industry. For the financial year ended 31 December 2002, approximately 80.4% of KMC's sales in this sector stemmed from operations offshore Peninsular Malaysia, with the balance mainly arising from operations offshore East Malaysia.

In respect of its trading activities, KMC's chemical sales are mainly derived from the domestic oil and gas industry with the remainder being supplied to other general industries in Malaysia as well as to the regional market.

(h) **Market share and competition**

According to the independent market research report issued by Frost & Sullivan dated 18 November 2002 ("Frost & Sullivan Report"), KMC commanded approximately 82% of the total drilling fluids market in Malaysia for the year 2001, with its main competitors being Magcobar-Imco Drilling Fluids Inc ("Magcobar-Imco") and Baker Hughes Inteq ("Baker Hughes") from the US.

It is noted in the Frost & Sullivan Report that Magcobar-Imco is the world's largest drilling and completion fluids supplier to the oil drilling industry. However, it has only a small presence in Malaysia, accounting for approximately 12.7% of the Malaysian drilling fluids market in 2001. The report further states that despite the global presence of Baker Hughes which operates in over 100 countries worldwide, its market share in Malaysia remains small, accounting for only approximately 4.8% of the Malaysian drilling fluids market in 2001.

Frost & Sullivan believes that the success of KMC in the Malaysian market is due to its local content strategy whereby approximately 96% of its technical support is provided by local engineers as compared to 60% and 30% of the technical support of Magcobar-Imco and Baker Hughes respectively. Further, the commitment by the Malaysian government to encourage and develop its local oil and gas industry as well as PETRONAS' commitment in helping the Malaysian oil and gas industry grow have proven to be advantages to local growth companies like KMC.

(Source: Independent Market Research Report by Frost & Sullivan dated 18 November 2002)

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(i) **Major customers**

For the financial year ended 31 December 2002, the major customers of the KMC Group (i.e. those contributing 10% or more to the group's turnover) are as follows:

Major customers	% of the KMC Group's total turnover	Length of relationship (years)
Petronas Carigali	39.0	11
EPMI	41.1	7
Shell	19.9	9

Notwithstanding that the bulk of KMC's revenue stems mainly from its three major customers, KMC believes that this is inherent to the nature of the domestic drilling fluids industry in view of the limited number of PSCs currently operating in Malaysia. Nevertheless, KMC intends to increase its market to regional and overseas customers to reduce its dependency on the domestic drilling fluids industry, and hence on its 3 major customers.

(j) **Major suppliers**

For the financial year ended 31 December 2002, the KMC Group does not have any suppliers that contribute more than 10% or more to the KMC Group's purchases as KMC sources its raw materials from numerous suppliers. KMC does not depend upon any one of its suppliers for its raw materials.

(k) **Research and development**

KMC undertakes continuous development activities to support its role as a leading supplier to the oil and gas industry. In its research and development ("R&D") efforts, KMC has entered into a collaboration with the Petroleum Engineering Department of University Teknologi Malaysia. The research primarily focuses on the formulation of a more environmentally friendly oil-based drilling fluids. The R&D programme further seeks to identify suitable local materials which can be used as additives and base fluids. KMC has employed a full time chemist to undertake the research work. This R&D programme started in March 2002 and is for a duration of two years.

(l) **Health, safety and environmental factors**

Health and safety

KMC emphasises on the health and safety aspects of its employees and customers in all aspects of its operations.

In accordance with the directives of the Occupational Safety and Health Act, 1994 ("OSH Act"), KMC is required to comply with all requirements under the OSH Act and this is monitored by DOSH through ad-hoc inspections of the production facilities and supporting infrastructure.

Under the directives of KMC's health, safety and environmental policy ("HSE Policy"), KMC undertakes yearly audits to review and evaluate the health and safety management systems implemented within the organisation. The audit also reports on, *inter-alia*, KMC's compliance with the applicable legislation and regulations. As part of the HSE Policy, KMC's management is regularly updated on the accident and injury statistics of the group, the results of subsequent investigations and recommendations thereon to prevent further recurrence of the same.

KMC conducts HSE training for all levels of its employees, including temporary staff and contract workers. Its facilities are equipped with modern fire and safety features, such as fire and gas detectors, fire fighting systems, emergency eye-wash and shower stations and trained personnel for such purposes. All visitors and workers at KSB and ASB are further provided with personal protective equipment (PPE).

Evidencing the company's superior safety performance, KMC has had zero lost time accident since 1990, a critical measure in the high risk oil and gas industry. In recognition of its excellent safety record, the offshore division of EPMI has awarded KMC for its excellent safety performance each year from 1992 to 2001.

Environment

The controlling legislation for environmental protection in Malaysia is the Environmental Quality Act, 1974, which is enforced by the Department of Environment ("DOE"). DOE inspectors visit KMC's operational base on an ad-hoc basis to confirm adherence of the group with the applicable legislation.

(m) **Competitive advantage**

Notwithstanding that the other major players in the provision of drilling fluids and mud engineering services in Malaysia are international drilling fluids corporations stemming from the USA, namely Magcobar-Imco Drilling Fluids Inc and Baker Hughes Inteq, KMC believes that it has an advantage over its competitors due to the following reasons:

- KMC has a niche market in the mud engineering services sector as it is a wholly owned Malaysian company which has the expertise, technical knowledge and ability to provide mud engineering services to the oil and gas activities offshore Malaysia. Further, it is a Bumiputera-controlled company and is fully licensed by PETRONAS.

- KMC has the capability to provide in-house training for local engineers and is currently operating with a workforce comprising more than 96% Malaysian engineers thereby reducing its reliance on expatriates.

- KMC has fully equipped chemical laboratories at KSB and Miri to support its daily offshore operations in Peninsular Malaysia and East Malaysia respectively. The location of these laboratories plays an important role as the supporting infrastructure of any drilling fluids and mud engineering service provider is a key criterion for technical qualification during the bidding exercise with the PSC Contractors.

- KMC is the only mud engineering company in Malaysia with its own barite milling and blending facility at KSB.

- KMC has a proven safety performance record with a zero lost time accident record since 1990.

(n) **Key awards, certifications and milestones**

Awards

- KMC has received consecutive annual safety awards between 1992 and 2001 from the offshore division of EPMI for its excellent safety performance in the medium risk category under the Offshore Division Contractor Safety Award Programme.
- KMC was selected as an Enterprise 50 1999 winner and Enterprise 50 2002 winner in October 1999 and October 2002 respectively under the Enterprise 50 Award Programme organised by the Small and Medium Industries Development Corporation in conjunction with Andersen Consulting and presented by MITI.
- KMC received the OHSAS 18001 certification from Det Norske Veritas on 26 November 2002 for conforming to the Occupational Health and Safety Assessment Series specification.

Milestones

- In 1996: KMC was involved in the first ever multilateral well drilled in Malaysia at Shell's South Furious field offshore Sabah.
- In 1996: KMC provided drilling fluids and mud engineering services for its first synthetic-based mud systems at EPMI's Lawit Field.
- In 1999: KMC provided drilling fluids and mud engineering services for the successful drilling of Petronas Carigali's Sotong-06 tri-lateral well at the Sotong field, offshore Terengganu.
- In 2001: KMC provided drilling fluids and mud engineering services for the drilling of two deepwater wells at Shell's Ubah and Ramin fields offshore Sabah.

(o) **Licences, registrations and permits**

An overview of the salient licences, registrations and permits of KMC is set out below:

Authority / licensor	**Type / purpose of licence, registration or permit**
PETRONAS	Licence to supply equipment and provide services to petroleum exploration and producing companies in Malaysia
Ministry of Finance	Registration as contractor to supply various products and services
MITI	Permit for the import of barite ore
Pejabat Tanah Kemaman	Licence to purchase and store mineral ore
Majlis Daerah Kemaman	Licence for storage of building materials, tin drums and petrol, and for rock crushing activities

Certain employees of KMC have also been granted with the requisite wholesaler's poison licence by the Terengganu and Labuan State Health Departments pursuant to the Poisons Ordinance 1952 for the import, storage and wholesale of Type B poisons at KSB and ASB respectively.

(p) **Employee training**

KMC emphasises on staff training at all levels of its operations and provides both internal as well as external training to its employees. To date, the company has sent some of its senior engineers to attend advanced courses on management and drilling fluids systems in Houston, USA as set out in Section 6.5.4 of this Prospectus. Besides providing training for its mud engineers, KMC is also committed to developing and enhancing the skills of its other staff and sends them on courses in accordance to each individual's training requirements as identified through their respective appraisal exercises.

6.5.2 Transportation engineering division

(a) **Principal products and services**

Scomi is a diversified transportation engineering company that manufactures and fabricates a wide range of quality road transport hardware, catering for specialised requirement and exigencies. These include standard road transport equipment, petroleum tankers, pressurised carriers, airport ground support equipment, environmental equipment and utility vehicles. Scomi supplies its products to, amongst others, various ministries, Government agencies, transport service companies and airport ground support operators.

Scomi's products can be broadly categorised as follows:

(a) Road trailers and tankers;

(b) Truck-mounted equipment; and

(c) Airport ground support equipment.

Road trailers and tankers are articulated types of transport vehicles to carry containers, bagged goods, bulk cargo, loose goods, petroleum products, liquefied petroleum gas, chemicals, cement and animal feeds. Trailers are generally manufactured from mild steel whereas the tankers can be manufactured from mild steel, aluminium and stainless steel, depending on the usage and the customers' specifications of the tankers.

Most of the truck-mounted equipment manufactured by Scomi is mainly to cater for the environmental needs, public facilities maintenance, transportation of covered goods and infrastructure development. Some examples of these equipment manufactured by Scomi are refuse compactors, aerial platforms, tippers, box vans, high-pressure jetters, vacuum tanks and sewage cleaner.

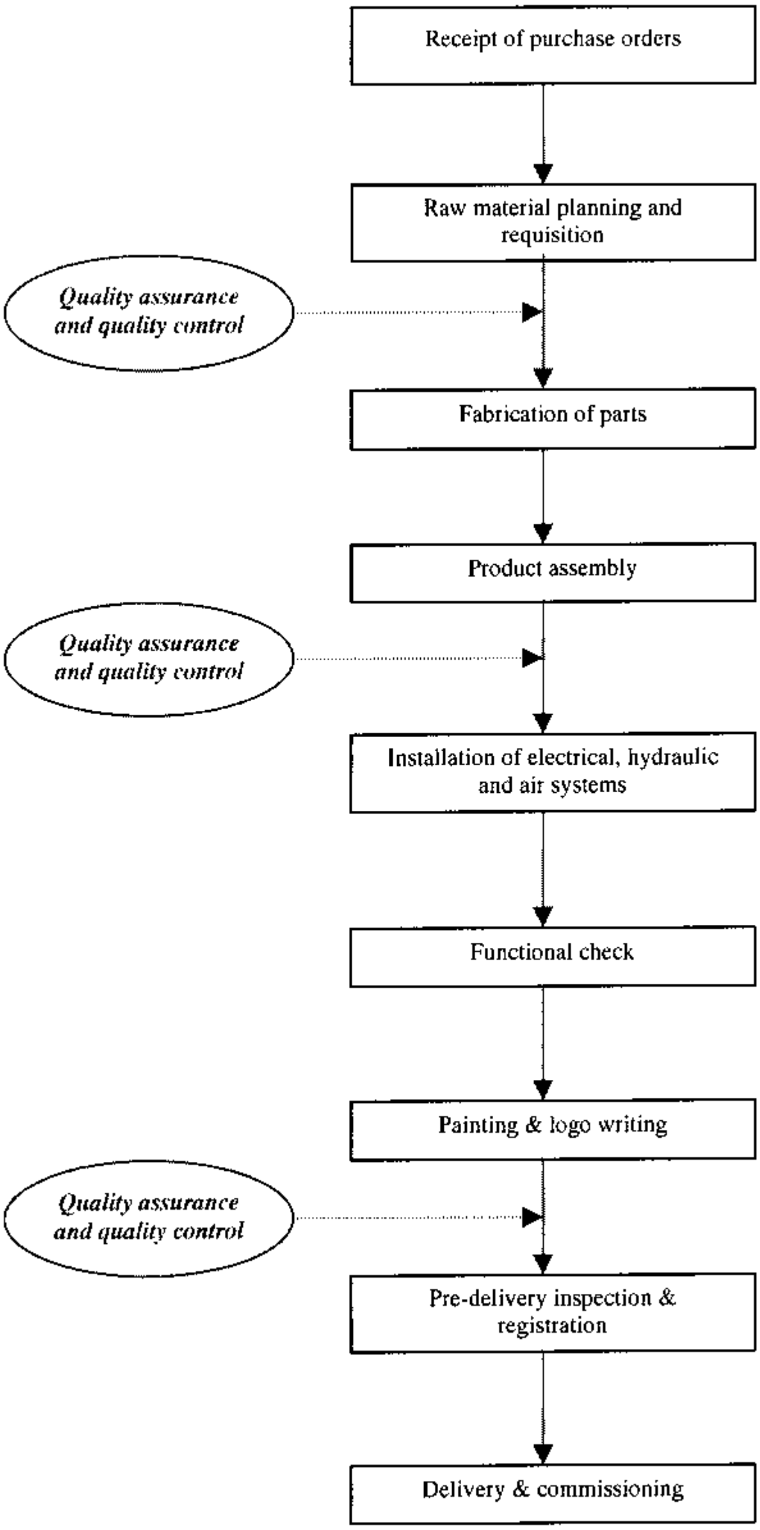
To date, Scomi believes that it is the only local manufacturer of aircraft refuellers and hydrant dispensers in Malaysia. Further, it also believes that it is one of the main suppliers and manufacturers in South-East Asia for the manufacture and fabrication of airport ground support equipment such as refuellers, dispensers, passenger stairs, catering hi-lift trucks, toilet and water servicing vehicles.

Complementing its manufacturing activities, Scomi also provides services such as consultation, parts and repairs and product training for its customers.

Under the ambit of the transportation engineering division, Scomi, through its wholly owned subsidiary company, SCOPE, has, in September 2001, ventured into the manufacturing of high-precision engineering products as an OEM. The products that are manufactured by SCOPE are mainly aluminium-based and stainless steel-based components and parts for the oil and gas industries.

(b) **Production processes**

The flow chart below illustrates the general production flow process of Scomi:



(c) **Production facilities and supporting infrastructure**

Scomi

The manufacturing plant of Scomi is located on rented premises with a total area of approximately 4 acres of industrial land in Subang with a total built-up area of approximately 75,000 square feet.

The manufacturing plant is equipped with an office, covered working area, shot blasting and painting shop and vehicle parking area. The covered working area has more than 34 active working bays and houses the following main equipment and facilities:

- Storage area that is able to store sufficient inventories for maximum production capacity and after sales service;
- 6 metre CNC rolling machine;
- Automatic 6 metre metal sheet welding machine;
- 3 metre rolling machine ;
- Hydraulic press brake;
- Submerged arc welding machine;
- Profile cutting and flanging machine;
- Hydraulic guillotine shear; and
- Metal inert gas and tungsten inert gas welding sets.

Scomi has its own design office that handles preparation of drawing submission, drawings for production and modification work, schematic diagrams for hydraulic, pneumatic and electrical systems for its products. Presently, all designs are done using auto-computer aided design software.

The production capacity of Scomi is as follows:

Products	Maximum capacity per month (in units)	Current output per month (in units)
- Road trailers and tankers - Truck-mounted equipment - Airport ground support equipment	Mix of 75 units	Mix of 30 units

Scomi uses an Enterprise Resource Planning ("ERP") business model called BAAN IV C4 (ERP) to facilitate transactions made between finance, distribution and works departments of Scomi.