

## **PART A: EXPLANATORY NOTES AS PER MASB 26**

### **A1. Basis of preparation of interim financial reports**

These interim financial statements are prepared in accordance with the Malaysian Accounting Standards Board ("MASB") Standard No.26 "Interim Financial Reporting" and paragraph 9.22 of the Bursa Malaysia Securities Berhad ("Bursa Malaysia")'s Listing Requirements and should be read in conjunction with the Company's annual financial statements for the year ended 31<sup>st</sup> December 2004.

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31<sup>st</sup> December 2004 except for the change in accounting policy in relation to negative goodwill.

This change in accounting policy has been accounted for prospectively and the effects of this change on the interim financial statements are disclosed in Note A12.

### **A2. Qualification of financial statements**

The preceding year annual financial statements were not subjected to any qualification.

### **A3. Seasonal and cyclical factors**

The group's results were not materially affected by any major seasonal or cyclical factors.

### **A4. Unusual and extraordinary items**

There were no exceptional and/or extraordinary items affecting assets, liabilities, equity, net income or cash during the current quarter under review.

### **A5. Material changes in estimates**

There was no material changes in estimates reported in the current quarter under review.

### **A6. Issuance and repayment of debt and equity securities**

Save as disclosed below, there were no issuances, cancellations, share buy-backs, resale of shares bought back and repayment of debt and equity securities:

During the quarter ended 30<sup>th</sup> September 2005, the issued and paid-up share capital of the Company was increased from 988,095,500 ordinary shares of RM0.10 each to 991,561,100 ordinary shares of RM0.10 each by the issuance of:

- (i) 3,465,600 new ordinary shares of RM0.10 each of the Company pursuant to the exercise of options granted under the ESOS at option prices ranging from RM0.17 to RM1.12 per ordinary share.

### **A7. Dividends Paid**

The final dividend of 3% less income tax of 28% amounting to RM2,140,998 in respect of the financial year ended 31<sup>st</sup> December 2004 was paid on 19<sup>th</sup> September, 2005.

**A8. Segmental Information**

Division	3 <sup>rd</sup> Quarter ended 30 <sup>th</sup> September 2005		Nine-months ended 30 <sup>th</sup> September 2005	
	Revenue	Profit/(Loss) Before Tax	Revenue	Profit/(Loss) Before Tax
	RM`000	RM`000	RM`000	RM`000
Oil & Gas				
-International	167,954	9,397	454,466	27,450
-Malaysia	68,234	10,514	172,572	21,467
Manufacturing	48,623	7,148	144,594	19,262
Investment Holding	2,101	(4,397)	8,688	(8,236)
	<u>286,912</u>	<u>22,662</u>	<u>780,320</u>	<u>59,943</u>
Inter-segment elimination	(2,101)	-	(8,688)	-
Total	<u>284,811</u>	<u>22,662</u>	<u>771,632</u>	<u>59,943</u>

Division	3 <sup>rd</sup> Quarter ended 30 <sup>th</sup> September 2004		Nine-months ended 30 <sup>th</sup> September 2004	
	Revenue	Profit Before Tax	Revenue	Profit/(Loss) Before Tax
	RM`000	RM`000	RM`000	RM`000
Oil & Gas	193,283	24,037	340,943	45,230
Transportation Engineering	15,078	327	33,482	(7)
Marine Transportation	2,960	1,454	3,353	1,575
Investment Holding	7,798	5,319	11,725	6,715
	<u>219,119</u>	<u>31,137</u>	<u>389,503</u>	<u>53,513</u>
Inter-segment elimination	(7,970)	(5,934)	(12,253)	(6,465)
Total	<u>211,149</u>	<u>25,203</u>	<u>377,250</u>	<u>47,048</u>

The presentation of segmental information has been changed in the current year to better reflect the grouping of business activities.

**A9. Valuation of property, plant and equipment**

There is no revaluation of property, plant and equipment, as the group does not adopt a revaluation policy on property, plant and equipment.

**A10. Material events subsequent to the balance sheet date**

There was no material event subsequent to the balance sheet date that has not been reflected in this condensed financial statement.

## **A11. Changes in composition of the group**

### **(a) Scomi Marine Berhad**

On 30<sup>th</sup> September 2005, the Company completed the subscription of shares in Scomi Marine Berhad ("SMB") (formerly known as Habib Corporation Berhad), and now holds a 29.6% equity stake in SMB. On 7<sup>th</sup> October 2005, the new SMB shares were listed on the Main Board of Bursa Malaysia Securities Berhad.

The Company had also simultaneously completed the subscription of 160,000,000 new redeemable convertible cumulative preference shares of RM0.01 each in SMB at an issue price of RM1.00 each ("SMB RCCPS"). The SMB RCCPS bear a fixed cumulative preferential dividend of 3% per annum and can be converted into new SMB's ordinary shares after one year from the date of issuance of the SMB RCCPS on the basis of one(1) new SMB share for every 1.15 SMB RCCPS held.

### **(b) KMC Oiltools Bermuda Limited**

On 9<sup>th</sup> November 2005, KMC Oiltools(S) Pte Ltd, a subsidiary of KMC Oiltools Bermuda Limited ("KMC OB"), acquired the entire issued and paid up capital of KMC Oiltools India Private Limited (KMCO India), comprising ten thousand (10,000) ordinary shares of Indian Rupees(INR) 10 each at a cash consideration of INR100,000 (US\$2,326).

## **A12. Effect of the change in accounting policy**

The effects of the change in accounting policy on negative goodwill are as follows:

	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Effects on retained profits:</b>		
At 1 January, as previously stated	70,510	12,868
Effects of change in accounting policy	<u>11,354</u>	<u>11,354</u>
At 1 January, as restated	<u>81,864</u>	<u>24,222</u>
	<b>9 months ended</b>	
	<b>30.09.05</b>	<b>30.09.04</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Effects on net profit for the period:</b>		
Net profit before change in accounting policy	36,953	40,073
Effects of change in accounting policy	<u>5,200</u>	<u>-</u>
Net profit for the period	<u>42,153</u>	<u>40,073</u>

The comparative amount for reserve on consolidation of the Group as at 31 December 2004 has been restated as follows:

	<b>Previously</b>		
	<b>Stated</b>	<b>Adjustments</b>	<b>Restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Reserve on consolidation	<u>11,354</u>	<u>(11,354)</u>	<u>-</u>

### A13. Contingent liabilities

Details of contingent liabilities of the group as at 30<sup>th</sup> September 2005 are as follows:

	<b>RM ` 000</b>
Various legal claims of subsidiaries	<u>856</u>
Total	<u>856</u>

### A14. Capital and operating lease commitments

Authorised capital commitments not provided for in the financial statements as at 30<sup>th</sup> September 2005:

	<b>Approved and contracted for RM ` 000</b>	<b>Approved but not contracted for RM ` 000</b>
Acquisition of shares in Oiltools (Put and Call Option)		
- Derrick Acquisition	54,267	-
- Pianca Acquisition *	25,693	-
Property	322	15,389
Vessels	-	125,000
Plant and Machinery	37,568	3,169
Office Equipment, Furniture and Fittings	558	1,616
Motor Vehicles	<u>17,480</u>	<u>16,990</u>
Total	<u>135,888</u>	<u>162,164</u>

\* -This is the amount stated as payable to Mr Pianca under the Put & Call agreement in the event of certain events, such as death, occurring before the exercise dates. If the events do not occur, the actual amount payable is based on a stated formula tied to profits of the International Division .

Operating lease commitments:

<b>Future minimum lease rental payable</b>	<b>Due within 1 year RM' 000</b>	<b>Due within 1 to 5 years RM' 000</b>	<b>Due after 5 years RM' 000</b>
Property	3,634	10,173	5,604
Plant and Machinery	1,363	669	13
Office Equipment, Furniture and Fittings	261	448	-
Others	467	1,820	-
Total	<u>5,725</u>	<u>13,110</u>	<u>5,617</u>

### A15. Significant related party transactions

There were no significant related party transactions entered into during the quarter under review.

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

**B1. Review of performance for the quarter ended 30<sup>th</sup> September 2005**

B1 should be read in conjunction with A8 above.

The group recorded turnover of RM284.8 million for the quarter ended 30<sup>th</sup> September 2005, compared to RM211.1 million in the corresponding quarter in 2004, with approximately 83% of the turnover contributed by its Oil & Gas Division.

The group registered a net profit of RM16.0 million during the quarter against RM23.3 million in the corresponding quarter with approximately 98% of the profits contributed by the Oil & Gas Division.

The acquisition of KMC Oiltools Bermuda Limited has contributed positively to the increase in the group's turnover and profits for the Oil & Gas Division.

The International Division generated revenues of RM167.9 million for the quarter with the Americas being the biggest contributor. This region experienced an uptrend in the 3<sup>rd</sup> quarter as revenues increased largely due to increased land farming and containment & handling activities in Venezuela. The USA was however adversely affected by Hurricanes Katrina and Rita which caused a suspension in drilling activity. Europe continued to perform well due to increased activity levels in the North Sea which had an immediate impact on the thermal business as the volume of cuttings received rose in the third quarter. The Middle East & North Africa region also had a good quarter with good sales of Derrick equipment and screens. In Asia, some progress has been made notably in Indonesia and Thailand. Major contracts awarded to the Group within the quarter included contracts in the UK, Indonesia, Venezuela, Norway, Nigeria, Russia, Sudan, Dubai, Iran, and Pakistan.

The Manufacturing Division generated revenue of RM48.6 million during the quarter under review with the machine shops being the main contributor to the division's turnover and net profits. The Singapore Machine Shop contributed the majority share of the revenues mainly from a contract in Saudi Arabia.

**B2. Variation of results against preceding quarter**

The group achieved a turnover of RM284.8 million for the current quarter ended 30<sup>th</sup> September 2005 compared to RM257.6 million in the preceding quarter ended 30<sup>th</sup> June 2005. The increase was mainly due to the International Division which showed an improvement as mentioned in B1 above.

In line with the increase in turnover, the net profit increased to RM16.0 million for the current quarter 30<sup>th</sup> September 2005 compared to RM12.0 million in the preceding quarter ended 30<sup>th</sup> June 2005.

Profitability was however affected by the increase in costs and the impact of Hurricanes Katrina & Rita in the USA as mentioned above. In addition, the Group has also incurred costs in ramping up its infrastructure so that it will be well positioned to take advantage of tenders and contracts in the future.

### **B3. Current year prospects**

#### 1) Oil & Gas

##### a) International Division

The International Division is actively participating in bids and tenders as an integrated service provider of drilling waste management and drilling fluids. The main thrust will be to maximise the benefit of the global infrastructure and market presence in order to increase market share in drilling fluids. In addition, the group will be aiming to take advantage of the increasing trend towards integrated services to boost the drilling waste management business.

KMC Oiltools Ltd, a wholly owned subsidiary of KMC Oiltools Bermuda Limited has entered into a Distribution Agreement with Twin Filter B.V as the exclusive distributor for Twin Filter products for use within the oil and gas industry in Asia, Africa (except for Nigeria), the Middle East, North America (including Mexico) and the CIS, and the United Kingdom, Australia, New Zealand, Papua New Guinea and Venezuela.

PT Inti Jatam Pura, a company owned by Indonesian interests but whose financial results are consolidated with KMC Oiltools Bermuda Limited has entered into a Distribution Agreement with Baker Hughes Oilfield Operations Inc. as the exclusive distributor for BH-Centrilift's pumps, seals, motors, sensors and related products and spare parts to oil and gas industry customers in the Republic of Indonesia.

##### b) Malaysia Division

The investment into Scomi Marine Berhad (formerly known as Habib Corporation Berhad) will create opportunities to expand marine vessel transportation of bulk aggregates. Furthermore, this deal is expected to propel the Marine Transportation business into a new arena of challenge as a major regional marine transportation and offshore support service company focusing on the oil and gas industry, in line with Scomi's strategy to become a prominent regional player in the sector.

#### 2) Manufacturing Division

The proposed disposal to Bell & Order Bhd would allow the machine shop businesses and transportation engineering division to gain direct access to capital markets and to more easily raise funds for future expansion. Furthermore, this division will be able to specialise in activities within the manufacturing industry.

Despite the increasing turnover, profitability does not increase in tandem, due to the increase in costs. As mentioned in B2, the Group's increase in costs resulted from ramping up of its infrastructure to gear up for newly awarded and future contracts and higher oil prices. The strengthening of the organisation and infrastructure included the setting up of the Global Research Technology Centre in Kuala Lumpur as well as new operations in Turkmenistan, Mexico and India. In addition, there has been an increase in cost of support services with the expansion of the legal, group internal compliance, drilling fluids, products and services and the manufacturing support teams.

The acquisition of the marine assets of Chuan Hup Holdings Limited via Scomi Marine Berhad necessitated a rethink of the strategy vis-à-vis the marine vessel division in Malaysia and the proposed purchase of additional vessels was suspended as a result of the significant increase in the vessel fleet through Scomi Marine Berhad.

Despite the fact that costs are running ahead of margins and its resultant impact on

operational profits, the results for the year will be helped by the gain on the proposed disposal of the Machine Shop Business, Scomi Sdn Bhd and Scomi Transportation and Solutions Sdn Bhd mentioned in B8(a).

**B4. Variance of actual and profit forecast / profit guarantee**

The group has not provided any quarterly profit forecast and there is no profit guarantee issued by the group or the Company.

## B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	30 <sup>th</sup> Sept 2005	30 <sup>th</sup> Sept 2004	30 <sup>th</sup> Sept 2005	30 <sup>th</sup> Sept 2004
	RM`000	RM`000	RM`000	RM`000
Income Tax	4,723	3,506	12,364	8,498
Transfer to / (from) deferred tax	47	-	(335)	-
Under/(Over) provision in respect of previous quarters / years	6	(4,027)	(313)	(4,027)
	<u>4,776</u>	<u>(521)</u>	<u>11,716</u>	<u>4,471</u>

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows: -

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	30 <sup>th</sup> Sept 2005	30 <sup>th</sup> Sept 2004	30 <sup>th</sup> Sept 2005	30 <sup>th</sup> Sept 2004
	%	%	%	%
Malaysian statutory tax rate	28.0	28.0	28.0	28.0
Tax effects of:				
- income not subject to tax	(5.3)	(1.1)	(7.3)	(2.8)
- different tax rates in other countries	0.2	(3.3)	0.8	(1.9)
- under/(over)provision in respect of previous quarters/ years	1.1	(25.7)	(1.9)	(13.8)
- expenses not deductible for tax purposes	0.8	-	3.7	-
- unrecognised tax loss/unabsorbed capital allowance	(3.7)	-	(3.8)	-
Effective tax rate	<u>21.1</u>	<u>(2.1)</u>	<u>19.5</u>	<u>9.5</u>



**B6. Unquoted investments and/or properties**

There are no changes to unquoted investments during the quarter under review.

**B7. Quoted and marketable investments**

Details of investments in quoted securities as at the reporting date are as follows:

	<b>RM`000</b>
Total investments at cost	3,090
Total investments at market value	3,090

**B8. Status of corporate proposal****(a) Proposed Disposal of Machine Shop Business and Proposed Disposal of Scomi Sdn Bhd and Scomi Transportation and Solutions Sdn Bhd.**

- (i) Proposed Disposal of Oiltools Pte Ltd (*now known as OMS Oilfield Services Pte. Ltd.*) ("OPL") and OMS Oilfield Holdings (Malaysia) Sdn Bhd (*formerly known as Oiltools Holdings (Malaysia) Sdn Bhd*) ("OOHMSB") ("Proposed Disposal of Machine Shop Business")

KMC Oiltools Bermuda Limited (formerly known as Oiltools International Limited) ("KMC Bermuda") and KMC Oiltools (Cayman) Ltd (formerly known as Oiltools International (Cayman) Ltd) ("KMC Cayman"), effectively 92.5% subsidiaries of the Company entered into the Conditional Machine Shop SPA with Bell & Order Berhad ("B&O") on 7<sup>th</sup> January 2005 for the following:-

- (i) the proposed disposal by KMC Bermuda of the entire equity interest in OPL, comprising 1,010,800 ordinary shares of S\$1.00 each in OPL ("OPL Sale Shares"), and
- (ii) the proposed disposal by KMC Cayman of the entire equity interest in OOHMSB, comprising:
- (a) 900,000 class "A" ordinary shares of RM1.00 each in OOHMSB ("OOHMSB A Shares") and 200,000 class "B" ordinary shares of RM1.00 each in OOHMSB ("OOHMSB B Shares"); and

- (b) 300,000 OOHMSB A Shares and 600,000 OOHMSB B Shares currently registered in the name of Syarikat Pesaka Antah Sdn Bhd;

(collectively to be referred to as "OOHMSB Sale Shares")

for a total sale consideration of RM237,500,000 to be satisfied by the issuance of 160,472,973 new ordinary shares of RM1.00 each in B&O ("B&O Shares") at an issue price of RM1.48 per share.

- (ii) Proposed disposal of Scomi Sdn Bhd ("SSB") and Scomi Transportation Solutions Sdn Bhd ("SCOTS") ("Proposed Disposal of SSB & SCOTS ")

On 7<sup>th</sup> January 2005, the Company entered into a conditional sale and purchase agreement with B&O to dispose of its entire equity interest in SSB, comprising 9,281,762 ordinary shares of RM1.00 each in SSB, and its entire

equity interest in SCOTS, comprising 500,000 ordinary shares of RM1.00 each in SCOTS, to B&O for an aggregate sale consideration of RM47,500,000 to be satisfied by an issuance of 32,094,594 new B&O Shares at an issue price of RM1.48 per share.

The Company obtained its shareholders' approval for the Proposed Disposals on 11 November 2005.

The Proposed Disposals are subject to the following approvals being obtained from:

- (i) the Securities Commission for the proposed general offer exemption to the Company and parties acting in concert with the Company, namely KMC Bermuda and KMC Cayman from having to undertake a mandatory general offer for the remaining ordinary shares in B&O not already owned by them upon completion of the Proposed Disposals pursuant to practice note 2.9.1 of the Malaysian Code on Take-Over and Mergers, 1988 and
- (ii) Bursa Malaysia Securities Berhad for the listing of and quotation for the new B&O Shares.

**(b) Private Placement**

A Private Placement of 89,415,000 new ordinary shares of RM0.10 each of the Company was effected on 25<sup>th</sup> February 2005 at an issue price of RM1.63 per share and the shares were granted listing and quotation on the Main Board of Bursa Malaysia on 3<sup>rd</sup> March 2005.

The status of utilisation of the proceeds raised from the 2<sup>nd</sup> Private Placement is as follows:

	<b>RM '000</b>
Gross proceeds	145,746
Share issue expenses	(3,700)
Working capital	(72,466)
Repayment of borrowing	(62,616)
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Balance as at 30 <sup>th</sup> September 2005	6,964
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**(c) Proposed Issuance of up to RM500 million Nominal Value Serial Bonds**

On 10<sup>th</sup> June 2005, the Company announced the proposed issuance of up to RM500 million nominal value serial bonds ("Proposed Bonds Issue") to the Malaysian debt capital markets. In this connection, the Company has resolved to terminate the earlier proposed issuance of up to USD\$100 million nominal value 5 year unsecured guaranteed redeemable convertible bonds.

On 24<sup>th</sup> August 2005, the Securities Commission approved the Company's application for the issuance of up to RM500 million nominal value serial bonds via the establishment of a medium term notes programme ("Notes"). The Notes comprised of four series with maturity dates ranging from five (5) years to seven (7) years from the date of issuance. The coupon rates of the Notes for the first three years are at 4.25% per annum and 7.5% per annum thereafter. The Notes will not be listed on any exchange.

The Proposed Bond Issue shall enable the Company to secure long term financing at relatively lower cost in view of the current favourable interest rate environment in the domestic debt market.

As at 28<sup>th</sup> September 2005, three out of the four series of the Notes amounting to RM380 million have been issued and the proceeds were utilised by the Company for investment in Scomi Marine Berhad and incidental costs.

The fourth series of the Notes is expected to be issued in the first quarter of 2006.

#### **B9. Provision of financial assistance to B&O**

The Company has rendered financial assistance to B&O to facilitate the Proposed Disposals stated in section B8(a) above. The aggregate amount of financial assistance in the form of advances provided to B&O for the reporting quarter is RM502,051. The amount is not expected to have any material financial impact on the group. It should be noted that Bursa Malaysia Securities Berhad has exempted the Group from having to comply with 8.23(i) of the Listing Requirements in respect of past financial assistance rendered and future financial assistance to be rendered by the Group in favour of B&O.

#### **B10. Group borrowings (secured)**

The group borrowings as at the end of the reporting period are as follows:

	<b>RM`000</b>
Short term borrowings	111,634
Long term borrowings	769,428
Total	<u>881,062</u>

The group borrowings are denominated in the following currencies:

	<b>RM`000</b>
Ringgit Malaysia	435,871
US Dollars	410,880
Pound Sterling	18,450
Canadian Dollars	13,723
Singapore Dollars	1,527
Australian Dollars	611
Total	<u>881,062</u>

**B11. Off balance sheet financial instruments**

There were no off balance sheet financial instruments as at the date of this report:

**B12. Change in material litigation**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or any of its subsidiaries and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or any of its subsidiaries.

**B13. Dividends**

On 20<sup>th</sup> October, 2005, the directors recommended the payment of an interim dividend of 6%, less income tax of 28%, (2004: 3% less income tax of 28%) in respect of the financial year ending 31 December 2005 to the shareholders of the Company who are on the Record of Depositors at an entitlement date of 11<sup>th</sup> November 2005. The dividend will be paid on 25<sup>th</sup> November, 2005.

**B14. Earnings per share**

	Individual Quarter		Cumulative Quarter	
	30 <sup>th</sup> Sept 2005	30 <sup>th</sup> Sept 2004	30 <sup>th</sup> Sept 2005	30 <sup>th</sup> Sept 2004
<b>Basic earnings per share</b>				
Net profit attributable to shareholders (RM `000)	16,008	23,339	42,153	40,073
Number of shares at the beginning of the period ('000)	894,134	100,000	894,134	100,000
Effects of shares issued during the period (`000)	-	-	-	-
Effects of private placement (`000)	89,415	10,000	69,436	9,307
Effects of share options exercised before bonus issue and share split (`000)	-	1,100	-	753
Effects of bonus issue (`000)	-	66,660	-	66,036
Effects of share split (`000)	-	711,038	-	704,382
Effects of share options exercised after bonus issue and share split (`000)	6,780	2,826	2,905	966
Weighted average number of shares (`000)	990,329	891,624	966,475	881,444
Basic earnings per share (sen)	1.62	2.62	4.36	4.55
<b>Diluted earnings per share</b>				
Net profit attributable to shareholders (RM `000)	16,008	23,339	42,153	40,073
Weighted average number of shares as per above (`000)	990,329	891,624	966,475	881,444
Number of shares under ESOS (`000)	107,616	53,279	101,723	53,279
Number of ESOS that would have been issued at fair value (`000)	(57,943)	(6,810)	(53,249)	(6,810)
Weighted average number of shares - diluted (`000)	1,040,002	938,093	1,014,949	927,913
Fully diluted earnings per share (sen)	1.54	2.49	4.15	4.32

