

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of preparation of interim financial reports

These interim financial statements are prepared in accordance with the Malaysian Accounting Standards Board ("FRS") Standard No.134 "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 31st 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 31st December 2004 except for the adoption of certain new and revised Financial Reporting Standards (FRS).

These adoptions have resulted in changes in certain accounting policies of the Group and the effects of the changes are disclosed in Note A12.

A2. Qualification of financial statements

The preceding year annual financial statements were not subject 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 change 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 31st December 2005, the issued and paid-up share capital of the Company was increased from 991,561,100 ordinary shares of RM0.10 each to 992,076,100 ordinary shares of RM0.10 each by the issuance of 515,000 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 31st December 2004 was paid on 19th September, 2005.

The interim dividend of 6% less income tax of 28% amounting to RM4,284,873 in respect of the financial year ended 31st December 2005 was paid on 25th November, 2005.

A8. Segmental Information

Division	4 th Quarter ended 31 st December 2005		Year ended 31 st December 2005	
	Revenue	Profit/(Loss) Before Tax	Revenue	Profit/(Loss) Before Tax
	RM`000	RM`000	RM`000	RM`000
Oil & Gas	231,129	89,143	858,167	138,060
Manufacturing	64,091	11,648	208,685	30,910
Marine	-	7,069	-	7,069
Investment Holding	3,838	19,846	12,526	11,610
	<u>299,058</u>	<u>127,706</u>	<u>1,079,378</u>	<u>187,649</u>
Inter-segment elimination	(2,718)	-	(11,406)	-
Total	<u>296,340</u>	<u>127,706</u>	<u>1,067,972</u>	<u>187,649</u>

Division	4 th Quarter ended 31 st December 2004		Year ended 31 st December 2004	
	Revenue	Profit Before Tax	Revenue	Profit/(Loss) Before Tax
	RM`000	RM`000	RM`000	RM`000
Oil & Gas	195,832	26,914	536,775	72,144
Transportation Engineering	13,488	(574)	46,970	(581)
Marine Transportation	3,116	1,330	6,469	2,905
Investment Holding	3,067	150	14,792	6,865
	<u>215,503</u>	<u>27,820</u>	<u>605,006</u>	<u>81,333</u>
Inter-segment elimination	(2,296)	(265)	(14,549)	(6,730)
Total	<u>213,207</u>	<u>27,555</u>	<u>590,457</u>	<u>74,603</u>

The presentation of segmental information has been changed in the current quarter 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 no circumstances have arisen to warrant a revaluation 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

Scomi Engineering Bhd (formerly known as Bell & Order Berhad)

On 27th December 2005, the Company subscribed for 192,567,567 new ordinary shares in Bell & Order Berhad ("B&O") at an issue price of RM1.48 per share, representing the shares issued in consideration for the Proposed Disposals detailed in B8 (a). With the completion of the subscription to B&O shares, the Company held 90.94% of the issued and paid-up share capital of B&O. On 20th January 2006, the Company's shareholding in B&O was reduced to 71.5% pursuant to a right issue exercise involving the minority shareholders of B&O.

With effect from 9th January 2006, B&O changed its name to Scomi Engineering Bhd ("SEB").

A12. Adoption of new and revised Financial Reporting Standards

The new and revised Financial Reporting Standards ("FRSs") adopted by the Group are as follows:

- (a) FRS 2 on Share-based Payments was adopted for the first time during the financial year ended 31 December 2005
 For 2004, the change in accounting policy had no financial impact since all share options granted in 2004 were unvested as at 31 December 2004. Therefore, no adjustments to the opening retained earnings as at 1 January 2005 nor change in comparative information is necessary.
 For 2005, the impact of share-based payments is a net charge of RM6.16 million to the Group income. As at 31 December 2005, the share options reserve remained at RM6.02 million. No liabilities were recognised under share-based payments.
- (b) FRS 127 on Consolidated and Separate Financial Statements has been adopted to better reflect the financial results of the Group. The Group has no transactions during the 2004 accounting period that may be affected by the adoption of this revised FRS. The financial impact on adoption of this Standard is shown under effects on net profit.

During the year, the Group also has a change in accounting policy on negative goodwill. Previously negative goodwill was carried in the balance sheet at historical costs. With the change in accounting policy, negative goodwill is now recognized immediately in profit or loss. This change has been accounted for prospectively and the effects of the change are as follows:

The effects of the adoption of new and revised FRSs are as follows:

	31.12.05	31.12.04
	RM'000	RM'000
Effects on retained profits:		
At 1 January, as previously stated	70,510	12,868
Effects of change in accounting policy:		
- negative goodwill	11,354	11,354
At 1 January, as restated	<u>81,864</u>	<u>24,222</u>
	31.12.05	31.12.04
	RM'000	RM'000
Effects on net profit for the period:		
Net profit before change in accounting policy	13,650	61,494
Effects of change in accounting policy:		
- Share-based payments (employees' share options)	(6,163)	-
- negative goodwill	5,200	-
- Gain on disposal of subsidiaries	139,005	-
Net profit for the period	<u>151,692</u>	<u>61,494</u>

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

	Previously	Adjustments	Restated
	Stated	RM'000	RM'000
	RM'000		
Reserve on consolidation	11,354	(11,354)	-

A13. Contingent liabilities

Details of contingent liabilities of the group as at 31st December 2005 are as follows:

	RM`000
Various legal claims of subsidiaries	133
Corporate guarantee for unutilised banking facilities	<u>84,619</u>
Total	<u>84,752</u>

A14. Capital and operating lease commitments

Authorised capital commitments not provided for in the financial statements as at 31st December 2005:

	Approved and contracted for RM`000	Approved but not contracted for RM`000
Acquisition of shares in Oiltools (Put and Call Option)		
- Derrick Acquisition	54,267	-
- Pianca Acquisition *	25,693	-
Plant and Machinery	22,654	21,304
Office Equipment, Furniture and Fittings	4	5,866
Motor Vehicles	<u>15,800</u>	<u>14,000</u>
Total	<u>118,418</u>	<u>41,170</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:

Future minimum lease rental payable	Due within 1 year RM' 000	Due within 1 to 5 years RM' 000	Due after 5 years RM' 000
Property	5,432	5,137	550
Plant and Machinery	3,050	1,163	-
Others	222	450	23
Total	<u>8,704</u>	<u>6,750</u>	<u>573</u>

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

B1. Review of performance for the quarter ended 31st December 2005

B1 should be read in conjunction with A8 above.

The group recorded turnover of RM296.3 million for the quarter ended 31st December 2005, compared to RM213.2 million in the corresponding quarter in 2004, with approximately 78% of the turnover contributed by its Oil & Gas Division.

The group registered a net profit of RM109.5 million during the quarter against RM21.4 million in the corresponding quarter mainly as a result of the gain arising from the disposal of the Machine Shop Business, Scomi Sdn Bhd and Scomi Transportations Solutions Sdn Bhd as mentioned in B8.

The International Division generated revenues of RM185.1 million for the quarter with the Americas being the biggest contributor. This region experienced an uptrend in the 4th quarter as revenues rose largely due to increased land farming and containment & handling activities in Venezuela. Europe continued to perform well due to increased activity levels in the North Sea. Norway performed very well mainly due to new contracts while the UK also did well as thermal activity remained strong and bin rentals picked up as customers are now prepared to commit fixed term contracts. The Middle East & North Africa region had a good quarter with increase in sales of pumps parts. In Asia, the highlight for the region was Myanmar where the company secured a drilling fluids contract. In West Africa, revenue improved mainly due to projects in Nigeria.

The Manufacturing Division generated revenue of RM64.1 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 major share of the revenues mainly from a contract in Saudi Arabia.

B2. Variation of results against preceding quarter

The group achieved a turnover of RM296.3 million for the current quarter ended 31st December 2005 compared to RM284.8 million in the preceding quarter ended 30th September 2005. The increase was mainly due to the International Division which showed an improvement as mentioned in B1 above.

The net profit increased to RM109.5 million for the current quarter 31st December 2005 compared to RM16.0 million in the preceding quarter ended 30th September 2005.

The increase in profitability was due to the gain arising from the disposal of the Machine Shop Business, Scomi Sdn Bhd and Scomi Transportation Solutions Sdn Bhd as mentioned in B8.

B3. Current year prospects

1) Oil & Gas Division

Internationally, the Group 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.

The Malaysian operation has been awarded five contracts for the provision of drilling fluid materials, equipment and services which is estimated to generate revenue of approximately RM1.5 billion. The contracts are for four years with options to extend for another two years. As a result of obtaining these new contracts coupled with the positive outlook of the global oil & gas industry, the prospects for the current year are encouraging.

2) Manufacturing Division

The manufacturing division listing through Scomi Engineering Berhad (formerly known as Bell & Order Berhad) was completed on 15th December 2005 and the B&O name was changed to Scomi Engineering Bhd on 9th January 2006. This allows the machine shop businesses and transportation engineering business 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.

B4. Variance of actual and profit forecast / profit guarantee

In relation to the profit guarantee given to SEB mentioned in B8(a), the shortfall of the audited consolidated PBT of Scomi Sdn Bhd's Group for the guaranteed consolidated PBT for the financial year ended 2005 amounted to RM2.25 million. The shortfall was due to limitations in production capacity and included a RM1.2 million charge to the profit and loss account for share-based payments resulting from the adoption of FRS 2 by Scomi Group Bhd.

B5. Taxation

	Current Quarter	Preceding Year Quarter	Current Year To Date	Preceding Year To Date
	31st Dec 2005	31st Dec 2004	31st Dec 2005	31st Dec 2004
	RM ` 000	RM ` 000	RM ` 000	RM ` 000
Income Tax	4,126	4,522	16,490	6,432
Transfer to / (from) deferred tax	(777)	(749)	(1112)	(749)
Under/(Over) provision in respect of previous quarters / years	(292)	(2,672)	(605)	(111)
	<u>3,057</u>	<u>1,101</u>	<u>14,773</u>	<u>5,572</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: -

	Current Quarter	Preceding Year Quarter	Current Year To Date	Preceding Year To Date
	31st Dec 2005	31st Dec 2004	31st Dec 2005	31st Dec 2004
	%	%	%	%
Malaysian statutory tax rate	28.0	28.0	28.0	28.0
Tax effects of:				
- income not subject to tax	(23.0)	(14.5)	(18.3)	(19.2)
- different tax rates in other countries	(17.4)	(1.9)	(11.5)	(1.9)
- under/(over)provision in respect of previous quarters/ years	0.5	(9.7)	(0.3)	(0.2)
- expenses not deductible for tax purposes	6.3	14.1	4.8	5.2
- unrecognised tax loss/unabsorbed capital allowance	10.4	(8.6)	6.9	(3.2)
- deferred tax assets not recognised	(2.4)	(3.4)	(1.7)	(1.2)
Effective tax rate	<u>2.4</u>	<u>4.0</u>	<u>7.9</u>	<u>7.5</u>

B6. Unquoted investments and/or properties

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

B7. Quoted and marketable investments

There was no purchase or disposal of quoted securities for the financial year under review.

B8. Status of corporate proposal

(a) Disposal of Machine Shop Business and Disposal of Scomi Sdn Bhd and Scomi Transportation and Solutions Sdn Bhd.

- (1) 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") ("Disposal of Machine Shop Business")

KMC Oiltools Bermuda Limited ("KMC Bermuda") and KMC Oiltools (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 7th January 2005 for the following:-

- (i) the 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 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.

- (2) Disposal of Scomi Sdn Bhd ("SSB") and Scomi Transportation Solutions Sdn Bhd ("SCOTS") ("Disposal of SSB & SCOTS")

On 7th 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.

On 14th December 2005, the Company entered into a Profit Guarantee and Stakeholder Agreement ("PGS Agreement") with B&O and Lee Hishammuddin Allen & Gledhill (acting as stakeholder) to comply with the condition imposed on B&O by the SC in granting its approval for the Proposed Disposals. In the PGS Agreement, the Company guarantees to B&O certain audited consolidated PBT of SCOTS and SSB for the financial years ending 31st December 2005, 31st December 2006 and 31st December 2007.

On 6th December 2005, the Company obtained the necessary approval from the Securities Commission, ("SC") for the 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 offer exemption for the remaining ordinary shares in B&O not already owned by them upon completion of the Proposed Disposals.

The SC had in the same letter acknowledged that the Company and the parties acting in concert with the Company have complied with the conditions imposed by the SC and the requirements under Practice Note 2.9.1 of the Malaysian Code on Take-Overs and Mergers, 1988.

The disposal of machine shop business and disposal of Scomi Sdn Bhd and Scomi Transportation Solutions Sdn Bhd was completed on 15th December 2005. The B&O shares were issued on 27th December and were listed on 26th January on the Second Board of the Bursa Malaysia.

(b) Private Placement

A Private Placement of 89,415,000 new ordinary shares of RM0.10 each of the Company was effected on 25th 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 3rd March 2005.

The proceeds raised from the Private Placement had been fully utilised in the fourth quarter of 2005 as follows:

	RM `000
Gross proceeds	145,746
Share issue expenses	(3,700)
Working capital	(79,430)
Repayment of borrowing	(62,616)
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Balance as at 31 st December 2005	Nil
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(c) Issuance of up to RM500 million Nominal Value Serial Bonds

On 10th June 2005, the Company announced the proposed issuance of up to RM500 million nominal value serial bonds ("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 24th 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 Bond Issue enabled the Company to secure long term financing at relatively lower cost in view of the then current favourable interest rate environment in the domestic debt market.

As at 28th 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 Bhd and incidental costs.

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

(d) Modification to terms of RCCPS in Scomi Marine Berhad

On 30th September 2005, the Company subscribed for 173,913,043 ordinary shares of RM1.00 each of Scomi Marine Bhd ("SMB") and 160,000,000 redeemable convertible cumulative preference shares ("RCCPS") in conjunction with SMB's fund raising exercise for the acquisition of the marine logistics and offshore support services of Chuan Hup Holdings Limited. At present, the Company holds 173,913,043 SMB Shares representing 29.58% equity interest in SMB and the entire 160,000,000 RCCPS.

On 25 January 2006, SMB proposed and the Company accepted SMB's proposal to modify certain terms of the RCCPS pertaining to, among others, the allowance for early conversion of the RCCPS into SMB's shares prior to the initial conversion date of one year from the date of issuance of the RCCPS, ie 30th September 2006. The above modification is subject to the approval of the Securities Commission and shareholders of the Company.

Upon full conversion of the RCCPS, the Company will have a shareholding of 43.1% in SMB.

B9. Provision of financial assistance to SEB

The Company has rendered financial assistance to SEB to facilitate the Proposed Disposals stated in section B8(a) above. The aggregate amount of financial assistance in the form of advances provided to SEB for the reporting quarter is RM399,127. 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 SEB.

B10. Group borrowings (secured)

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

	RM`000
Short term borrowings	139,934
Long term borrowings	778,429
Total	<u>918,363</u>

The group borrowings are denominated in the following currencies:

	RM`000
Ringgit Malaysia	463,009
US Dollars	376,025
Sterling Pound	62,626
Canadian Dollars	14,573
Nigerian Naira	1,160
Singapore Dollar	834
Others	136
Total	<u>918,363</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. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 st Dec 2005	31 st Dec 2004	31 st Dec 2005	31 st Dec 2004
Basic earnings per share				
Net profit attributable to shareholders (RM`000)	109,539	21,420	151,692	61,493
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	74,472	9,481
Effects of share options exercised before bonus issue and share split (`000)	-	1,100	-	840
Effects of bonus issue (`000)	-	66,660	-	66,193
Effects of share split (`000)	-	711,038	-	706,056
Effects of share options exercised after bonus issue and share split (`000)	8,326	5,192	4,271	2,028
Weighted average number of shares (`000)	991,875	893,990	972,877	884,598
Basic earnings per share (sen)	11.04	2.40	15.59	6.95
Diluted earnings per share				
Net profit attributable to shareholders (RM`000)	109,539	21,420	151,692	61,493
Weighted average number of shares as per above (`000)	991,875	893,990	972,877	884,598
Number of shares under ESOS (`000)	117,556	104,460	100,244	72,520
Number of ESOS that would have been issued at fair value (`000)	(71,422)	(50,321)	(57,288)	(24,687)
Weighted average number of shares - diluted (`000)	1,038,009	948,129	1,015,833	932,431
Fully diluted earnings per share (sen)	10.55	2.26	14.93	6.60