

PART A: EXPLANATORY NOTES AS PER MASB 26

A1. Basis of preparation of interim financial reports

The interim financial statements are prepared in accordance with the requirements of the Financial Reporting Standards ("FRS") 134: "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board ("MASB") 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 audited financial statements for the year ended 31st December 2005.

Up to 31 December 2005, the Group's consolidated financial statements were prepared in accordance with MASB Standards with effective dates before 1 January 2006 except for FRS2: Share-based payments and FRS 127: Consolidated and separate financial statements, which were early adopted by the Group in 2005.

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 2005 except for the adoption of the remaining new/revised FRSs with effective date for financial period beginning 1 January 2006.

The principal effects of the changes from adoption of new accounting policies & accounting estimates are disclosed as follows:

- a) FRS 101: Presentation of Financial statements
The revised FRS 101 requires that minority interest be presented within total equity in the consolidated balance sheet and as an allocation of the net profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. This change in presentation of minority interest has been effected in the Group's consolidated financial statements for financial year ended 31 December 2005 as a result of early adoption of FRS 127. Comparatives to the consolidated income statements and statement of changes in equity have also been restated to conform to the current period's presentation.
- b) FRS 116: Property, Plant and Equipment
In accordance with FRS 116, asset residual values, useful lives and depreciation methods will be assessed at each financial year end and adjusted if necessary. If the residual value of an asset increases to an amount equal to or greater than the asset's carrying amount, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

The Group revised the residual values and useful lives of certain plant and machinery, vessel and motor vehicles with effect from 1 January 2006. The revisions were accounted for as a change in accounting estimates and as a result, the depreciation charges for the twelve-month period have been reduced by RM6 million.
- c) FRS 140: Investment property
FRS 140 requires that properties held for rental yields or capital appreciation rather than being used by the Group be separately classified as investment properties. The Group has now separately classified certain properties previously included in property, plant and equipment as investment properties at cost less accumulated depreciation and impairment.

d) **Borrowing costs**
 In prior years, borrowings were initially recognized based on gross face value and included as a component within current or long term liabilities. Discounts on borrowings were included within a component of current assets and amortised over the period of the borrowings. As stipulated by FRS 3, the Group has now recognized borrowings based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

e) **Derivatives financial instruments and hedging activities**
 The Group did not have a policy on hedge accounting prior to 1 January 2006. During the quarter under review, the Group has entered into some Cross Currency Interest Rate Swaps (CCIRS) for the Group's exposure to foreign exchange on its borrowing.

The Group has therefore adopted a policy of recognizing derivatives initially at fair value on the date a derivative contract is entered into and the derivatives are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The CCIRS entered into by the Group are designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement under the category of income/(losses).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

As a result of the adoption of FRS 140, comparative amounts as at 31 December 2005 have been reclassified as follows:

	As previously stated RM'000	FRS 140 (note A1(c)) RM'000	As restated RM'000
At 31 December 2005			
Property, plant and equipment	332,876	(1,926)	330,950
Investment property, included in property, plant & equipment	-	1,926	1,926

New/revised FRSs which would be adopted upon their effective date for the financial period beginning 1 January 2007, are:

- FRS 117 Leases
- FRS 124 Related Party Disclosures

The adoption of the above new FRSs has no material effect on the results and financial position of the current and prior periods.

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

The Group makes assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date for impairment of intangible assets, depreciation on property, plant and equipment, and deferred tax assets that could arise from unused tax losses and unabsorbed capital allowances.

There were no material changes in estimates reported in the current quarter under review except for what have been disclosed in note A1(b).

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 or repayment of debt and equity securities:

(a) Employee Share Options Scheme ("ESOS")

During the twelve-month period ended 31st December 2006, the issued and paid-up share capital of the Company was increased from 992,076,700 ordinary shares of RM0.10 each to 1,005,352,300 ordinary shares of RM0.10 each by the issuance of 13,275,600 new ordinary shares of RM0.10 each pursuant to the exercise of options granted under the ESOS at the option prices between RM0.17 and RM1.12 per ordinary share.

(b) Treasury Shares

On 28 June 2006, the shareholders of the Company renewed their approval for the Company's plan to repurchase its own ordinary shares. For the twelve-month period ended 31st December 2006, the Company repurchased 3,425,900 of its issued ordinary shares from the open market at an average price of RM0.98 per share. The total consideration paid for the repurchase including transaction costs was RM 3,364,022 and this was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965.

A7. Dividends Paid

The final dividend of 6% less income tax of 28% amounting to RM4,328,142 in respect of the financial year ended 31st December 2005 was paid on 25th September, 2006.

A8. Segmental Information

Division	4th Quarter ended 31-Dec-06		Year ended 31-Dec-06	
	Revenue	Profit/(Loss) before tax	Revenue	Profit/(Loss) before tax
	RM`000	RM`000	RM`000	RM`000
Oilfield Services	306,776	14,203	1,158,662	83,933
Engineering	133,034	14,816	322,008	41,100
Production Enhancement	15,142	1,049	44,282	3,256
Energy Logistics	14,036	8,957	48,612	32,915
Investment Holding	500	(5,305)	2,000	(40,444)
Total	<u>469,488</u>	<u>33,720</u>	<u>1,575,564</u>	<u>120,760</u>

Division	4th Quarter ended 31-Dec-05		Year ended 31-Dec-05	
	Revenue	Profit before tax	Revenue	Profit before tax
	RM`000	RM`000	RM`000	RM`000
Oilfield Services	213,152	74,269	805,380	120,459
Engineering	64,091	11,220	208,685	30,482
Production Enhancement	9,596	2,060	26,484	3,004
Energy Logistics	8,381	819	26,303	3,276
Investment Holding	1,120	39,338	1,120	30,428
Total	<u>296,340</u>	<u>127,706</u>	<u>1,067,972</u>	<u>187,649</u>

The presentation of segmental information has been reclassified for the preceding quarters 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 as well as what have been disclosed in note B8.

A11. Changes in composition of the group

- On 28th April, 2006, a subsidiary of the Company, Kota Minerals and Chemicals Sdn Bhd has acquired an additional 25% equity interest in Sosma Sdn Bhd, thus making Sosma Sdn Bhd a wholly owned subsidiary of the Company.
- On 10 July 2006, the Group acquired 13,260,000 ordinary shares of RM1.00 each in MTrans Transportation Systems Sdn Bhd ("MTTS"), representing 51% equity interest in MTTS for a total cash purchase consideration of RM30 million. MTTS is an unlisted company incorporated in Malaysia which is involved in the manufacturing and assembling of buses and monorails.

- (c) On 31 August 2006, a subsidiary of the Company, Sosma Sdn Bhd acquired 4,800 ordinary shares representing 80% of the issued and paid up share capital of Anticor Chimie S.A. for a cash consideration of €600,000.
- (d) On 8 September 2006, KMC Oiltools KMC Oiltools Bermuda Limited ("KMCOB"), a 92.5% owned effective subsidiary of the Company, acquired 2 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital in KMCOB Capital Berhad for a cash consideration of RM2.00.
- (e) On 25 September 2006, the Company acquired 2 ordinary shares of ordinary RM1.00 each, representing the entire issued and paid-up share capital in Scomi Chemicals Sdn Bhd for a cash consideration of RM2.00. Scomi Chemicals is intended to be an investment holding company for businesses relating to (i) processing, distributing and trading in chemical products; and (ii) provision of waste management services and the fabrication, repair, cleaning and maintenance of related equipment and facilities.
- (f) On 4 December 2006, 500,000 ordinary shares of RM1.00 each representing the entire issued and paid-up ordinary share capital in Sosma Sdn Bhd ("Sosma") were transferred by Kota Minerals & Chemicals Sdn Bhd ("KMCSB") to the Company.
- (g) On 4 December 2006, the following shares in KMCOB were transferred by KMCSB to the Company:
 - (i) 10,512,364 ordinary shares of USD1.00 each in KMCOB ("KMCOB Ordinary Shares") representing 100% of the issued and paid-up ordinary share capital of KMCOB;
 - (ii) 876,633 "A" preference shares of USD1.00 each in KMCOB ("KMCOB Preference Shares");
 - (iii) 10,000,000 "B" KMCOB Preference Shares; and
 - (iv) 20,740 "C" KMCOB Preference Shares.

As a result of the internal restructuring, KMCOB became a direct wholly owned subsidiary of the Company.

- (h) On 20 December 2006, 8,082,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in KMCSB were transferred by the Company to KMCOB and KMCSB became a wholly owned subsidiary of KMCOB.
- (i) On 20 December 2006, the following shares were transferred by KMCSB to KMCOB:
 - (i) 100,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in OBM Terminal Sdn Bhd ("OBMT");
 - (ii) 51 ordinary shares of RM1.00 each representing 51% of the ordinary share capital in KMC All Star Chemicals Sdn Bhd ("KMC All Star");
 - (iii) 200,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in Kota Barite Sdn Bhd ("Kota Barite");
 - (iv) 1,230,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in Kota Minerals & Chemicals (Kemaman) Sdn Bhd ("KMC Kemaman"); and
 - (v) 1 ordinary share of RM1.00 each representing the entire ordinary share capital in KMC Oiltools Overseas (M) Limited ("KMCM").

OBMT, KMC All Star, Kota Barite, KMC Kemaman and KMCM then became wholly owned subsidiaries of KMCOB.

- (j) On 7 November 2006, the Company via its wholly own subsidiary, Scomi Energy Sdn Bhd (formerly known as Modular Value Sdn Bhd) subscribed to 7 ordinary shares of RM1.00 each which represents 70% of the issued and paid up ordinary shares of Scomi NTC Sdn Bhd. With the subscription, the Company holds 70% effective shareholding in Scomi NTC Sdn Bhd.

A12. Contingent liabilities

Details of contingent liabilities of the Group as at 31st December 2006 are as follows:

	RM ` 000
Guarantee relating to borrowings of associates	60
Various legal claims of subsidiaries	441
	<u>501</u>

A13. Capital and operating lease commitments

Authorised capital commitments not provided for in the financial statements as at 31st December 2006:

	Approved and contracted for RM ` 000	Approved but not contracted for RM ` 000
Acquisition of shares in KMC Oiltools Bermuda Limited (Put and Call Option) - Pianca Acquisition *	24,880	-
Acquisition of shares in Anticor Chimie S.A. (Put and Call Option) **	710	-
Proposed acquisition of additional interest in Mtrans (refer SEB note B8(b))	-	25,000
Property, plant and machinery	73,045	22,987
Office Equipment, Furniture and Fittings	2,173	3,221
Motor Vehicles	7,432	10,007
Others	-	7,800
Total	<u>108,240</u>	<u>69,015</u>

* This is the minimum 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 KMC Oiltools Bermuda Limited and KMC Oiltools Overseas (M) Limited.

** This is the minimum payment of €150,000 as stated in the Put & Call Agreement to acquire the remaining balance of 20% shareholding in Anticor Chimie S.A. in three tranches. Further details are provided under note B8(b).

Operating lease commitments:

Future minimum lease rental payable	Due within 1 year	Due within 1 & 5 years	Due after 5 years
	RM'000	RM'000	RM'000
Property	5,666	16,252	11,098
Plant and Machinery	717	3,679	2,651
Others	533	1,390	-
Total	<u>6,916</u>	<u>21,321</u>	<u>13,749</u>

A14. Related Party Transactions

The followings are the significant related party transactions:

	4th Quarter ended 31-Dec-06 RM'000	Year ended 31-Dec-06 RM'000
<i>Transactions with substantial shareholder of a subsidiary</i>		
- trade purchases	29,275	131,969
<i>Transactions with companies whereby a Director has interest</i>		
- chartering of marine vessels	2,176	10,855
<i>Transactions with an associated company or subsidiaries of an associated company</i>		
- management fee charged	500	2,000
- chartering of marine vessels	9,032	34,639

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

B1. Review of performance for the quarter ended 31st December 2006

B1 should be read in conjunction with A8 above.

The group recorded turnover of RM469.5 million for the quarter ended 31st December 2006, compared to RM296.3 million for the corresponding quarter in 2005, with approximately 92% of the turnover contributed by its Oilfield Services Division and the Engineering Division.

The bulk of the increase in turnover was contributed by the Oilfield Services Division which generated revenue of RM306.8 million for the quarter ended 31st December 2006. The reason for the increase in revenue compared to the corresponding quarter for the preceding year was due to the increase in drilling fluids and drilling waste management activities.

The Engineering Division recorded a RM133.0 million increase in its revenue as compared to the corresponding quarter. The increase was contributed mainly by the Machine Shop operations arising from orders by customers in the Middle East and the increase in revenue from buses and monorail contracts arising from the acquisition of MTTS.

The Energy Logistics Division recorded an increase of RM6.5 million in its revenue, mainly contributed from three new contracts and the Product Enhancement Division contributed to RM15.1 million of the current quarter's revenue.

The group registered a net profit of RM25.2 million during the quarter against RM109.5 million in the corresponding quarter for the preceding year due to the one-off gain on disposal of the machine shop recorded by the Group for the quarter ended 31st December 2005.

B2. Variation of results against preceding quarter

The group achieved a turnover of RM469.5million for the current quarter ended 31st December 2006 compared to RM430.7 million in the preceding quarter ended 30th September 2006.

The group achieved a net profit of RM25.2 million for the current quarter ended 31st December 2006 compared to RM23.3 million in the preceding quarter ended 30th September 2006.

In comparison to the preceding quarter, revenue and net profit for the current quarter were marginally higher by 9.0% and 7.9% respectively primarily due to increase in contribution from all divisions.

B3. Current year prospects

The **Oilfield Services Division** is expected to benefit from the increased activities in the rising rig counts worldwide as well as the increase in the size of the global drilling fluids and drilling waste management market. With the robust increase in activities, 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 infrastructure and market presence in 36 countries in order to increase its market share in drilling fluids, concentrating on the growth regions of Americas, MENAC and Asia. With our worldwide operation servicing various customers, we have broadened our customer base and have mitigated the risk of relying on a few major customers.

The **Engineering Division's** focus for the forthcoming year will be on the Machine Shop business and the Logistics Engineering business (with the completion of the acquisition of a further 40% of MTrans Transportation Systems Sdn Bhd (MTrans)), bringing the total percentage shareholding to 91%.

The favourable outlook for the oil and gas industry bodes well for our machine shops that are operating in areas projected to experience increase demand for its services. The expansion plans for Labuan and Singapore as well as the set up of new machine shop in Saudi, Irian Jaya and Shaklin will provide new capacity to fulfill the demand for Machine Shop Services. Going forward, Machine Shop has plans to invest in technology to cater for the deep water operations which is expected to be the growth area for 2007.

The Logistics Engineering division is expected to benefit from the acquisition of MTrans, a company with technology capabilities to produce public transportation vehicles such as buses and monorails. The acquisition will enable the division to increase its logistics engineering product range and its fabrication capacity to facilitate its participation in various projects.

The **Production Enhancement Division** is a new business area expected to provide the next channel of growth for Scomi Group Bhd. With the clean gas reserves being depleted, the development of acidic gas reserves is necessary for continuity of supply. Scomi Group Bhd in collaboration with National Tank Company (a company incorporated in Delaware, United States of America) to provide technology for a gas separation process has been awarded a project for the provision of an Acid Gas Removal System. In addition, with the completion of the 80% acquisition of Anticor, Scomi Group Bhd is expected to benefit from Anticor's strength in research and development and will gain access to new markets and range of specialized products in relation to the production chemicals business. The division's expansion into the gas separation process and the increased network for the marketing of chemical products are expected to contribute positively to this division's growth and the results.

The **Energy Logistics Division** will continue its focus on its core business of Marine Logistics and Offshore Marine Support Services in the South East Asia and Middle East regions. Whilst Indonesia will remain as the main focus region for the Marine Logistics, it has also made inward progress into the Malaysian and Middle East market via the carrying of bulk coal and the deployment of its tugs and barges to cater for transportation requirement of constructions materials in the Middle East. It intends to leverage on its presence in Malaysia and Middle East to capitalize on opportunities which may be present in those markets. The outlook for the Offshore Marine Support Services remains positive owing to increased exploration and oil production activities. Though the current operations are centered on South East Asia and Middle East, however, going forward, the division plans to explore venturing into Australia as well as other deep water markets.

B4. Variance of actual and profit forecast / profit guarantee

In relation to the profit guarantee given to SEB upon completion of the disposal of Machine Shop Business, Scomi Sdn Bhd and Scomi Transportation and Solutions Sdn Bhd on 15th December 2005, the estimated shortfall of the consolidated PBT of Scomi Sdn Bhd and Scomi Transportation and Solutions Sdn Bhd Groups for the guaranteed consolidated PBT for the financial year ended 2006 amounted to RM6.5 million. The estimated shortfall was a result of limitations in production capacity and lower profit margin derived from sale of commercial vehicles due to price competition.

B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31-Dec-06 RM`000	Preceding Year Quarter 31-Dec-05 RM`000	Current Year Quarter 31-Dec-06 RM`000	Preceding Year Quarter 31-Dec-05 RM`000
Current tax:				
Malaysian income tax	1,956	(1,431)	4,062	400
Foreign tax	8,698	5,557	23,373	16,090
	<u>10,654</u>	<u>4,126</u>	<u>27,435</u>	<u>16,490</u>
(Over)/Underprovision of Malaysian income tax in prior years	(1,088)	(292)	(1,292)	(605)
	<u>9,566</u>	<u>3,834</u>	<u>26,143</u>	<u>15,885</u>
Deferred tax	<u>(5,841)</u>	<u>(777)</u>	<u>(5,254)</u>	<u>(1,112)</u>
Total income tax expense	<u>3,725</u>	<u>3,057</u>	<u>20,889</u>	<u>14,773</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: -

	%	%	%	%
Malaysian statutory tax rate	28	28	28	28
Tax effects of:				
- income not subject to tax	8	(23)	(3)	(18)
- different tax rates in other countries	(25)	(17)	(10)	(12)
- under/(over) provision in respect of previous years	(3)	1	(1)	(0)
- unrecognised tax loss/unabsorbed capital allowance	(10)	10	(5)	7
- expenses not deductible for tax purposes	23	6	12	5
- share of associate's tax	(18)	-	(7)	-
- deferred tax assets not recognised	8	(2)	3	(2)
Effective tax rate	<u>11</u>	<u>2</u>	<u>17</u>	<u>8</u>

B6. Unquoted investments and/or properties

There were no disposals of unquoted investments or properties during the period under review.

B7. Quoted and marketable investments

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

	RM ` 000
Total investments at cost	7,750
Total investments at market value	7,750

B8. Status of corporate proposal

Scomi Group Berhad

(a) Proposed Internal Restructuring, Proposed Refinancing and Proposed Listing

1) Proposed Internal Restructuring:

On 9th August 2006, the Company announced that it proposed to undertake a Proposed Internal Restructuring (as set out below) and Proposed Listing (as set out in item 2 below).

The Proposed Internal Restructuring involves the restructuring of certain subsidiaries of the Company as follows:

- (a) Proposed transfer of 500,000 ordinary shares of RM1.00 each representing the entire issued and paid-up ordinary share capital in Sosma Sdn Bhd ("Sosma") held by Kota Minerals & Chemicals Sdn Bhd ("KMCSB") to the Company ("Proposed Sosma Transfer");
- (b) Proposed transfer of the following shares in KMCOB held by KMCSB to the Company ("Proposed KMCOB Transfer"):
 - (i) 10,512,364 ordinary shares of USD1.00 each in KMCOB ("KMCOB Ordinary Shares") representing 100% of the issued and paid-up ordinary share capital of KMCOB;
 - (ii) 876,633 "A" preference shares of USD1.00 each in KMCOB ("KMCOB Preference Shares");
 - (iii) 10,000,000 "B" KMCOB Preference Shares; and
 - (iv) 20,740 "C" KMCOB Preference Shares

The above shareholdings include the remaining 793,683 KMCOB Ordinary Shares, 74,917 "A" KMCOB Preference Shares, 943,750 "B" KMCOB Preference Shares and 3,454 "C" KMCOB Preference Shares ("Shares") which are proposed to be acquired from Derrick Corporation ("Derrick"). Pursuant to a put and call agreement between SCOMI and Derrick dated 30 January 2004 (as supplemented by an agreement dated 5 April 2005), SCOMI can acquire the remaining Shares from Derrick in April 2007. However, SCOMI proposes to accelerate the exercise of the option and to acquire the remaining Shares from Derrick as part of the Proposed Internal Restructuring ("Proposed Derrick Acceleration").

- (c) Proposed transfer of 8,082,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in KMCSB held by the Company to KMCOB ("Proposed KMCSB Transfer");

(k) Proposed transfer by KMCSB to KMCOB of the following:

- a. 100,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in OBM Terminal Sdn Bhd ("Proposed OBMT Transfer");
- b. 51 ordinary shares of RM1.00 each representing 51% of the ordinary share capital in KMC All Star Chemicals Sdn Bhd ("Proposed KMCAS Transfer");
- c. 200,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in Kota Barite Sdn Bhd ("Proposed KBSB Transfer");
- d. 1,230,000 ordinary shares of RM1.00 each representing the entire ordinary share capital in Kota Minerals & Chemicals (Kemaman) Sdn Bhd ("Proposed KMCK Transfer"); and
- e. 1 ordinary share of RM1.00 each representing the entire ordinary share capital in KMC Oiltools Overseas (M) Limited ("Proposed KMCOM Transfer").

The Proposed Internal Restructuring is to be undertaken in conjunction with the Proposed Refinancing (as set out in item 3 below) and Proposed Listing.

The Proposed Internal Restructuring is subject to the following approvals:

- (a) the Foreign Investment Committee ("FIC"). The approval of the FIC was obtained on 1 November 2006;
- (b) the Bank Negara Malaysia ("BNM"), for the Proposed KMCOB Transfer. The approval of BNM was obtained on 27 November 2006;
- (c) the holders of the Company's existing RM500 million nominal value of Medium Term Notes ("SCOMI Note Holders"). The approval of the SCOMI Note Holders was obtained on 19 October 2006;
- (d) the lenders of the Company and its subsidiary companies, where required; and
- (e) any other relevant authorities/parties/bodies.

On 30 August 2006, the Company announced that the Company and certain of its subsidiary companies had on the same date entered into the following agreements to facilitate the Proposed Internal Restructuring:

- (a) Conditional Share Sale Agreement between the Company and KMCSB in relation to the Proposed Sosma Transfer for a cash consideration of RM2,688,000;
- (b) Conditional Share Sale Agreement between the Company and KMCSB in relation to the Proposed KMCOB Transfer for a total cash consideration of USD88,000,000;
- (c) Conditional Share Sale Agreement between the Company and KMCOB in relation to the Proposed KMCSB Transfer for a total cash consideration of USD45,000,000;
- (d) Conditional Share Sale Agreement between KMCOB and KMCSB in relation to the Proposed OBMT Transfer, Proposed KMCAS Transfer, Proposed KBSB Transfer and Proposed KMCK Transfer for a total cash consideration of USD2,300,000; and
- (e) Conditional Share Sale Agreement between KMCOB and KMCSB in relation to the Proposed KMCOM Transfer for a cash consideration of USD3,200,000.

On 1 December 2006, the Company announced that it had on 30 November 2006

completed the Proposed Derrick Acceleration.

On 20 December 2006, the Company announced that the entire Proposed Internal Restructuring has been completed on the same date.

2) Proposed Listing:

Concurrent with the Company's announcement dated 9th August 2006 on the Proposed Internal Restructuring, the Company on the same date announced that it proposed to undertake a listing of KMCOB on the Singapore Exchange Securities Trading Limited ("SGX-ST") ("Proposed Listing"). The Proposed Listing is expected to be implemented upon completion of the Proposed Internal Restructuring and Proposed Refinancing.

The Proposed Listing is envisaged to comprise, amongst others, the following:

- (a) a Singapore and global offering of shares in KMCOB (or via a special purpose vehicle to be incorporated which will hold the interest in KMCOB ("Newco")) by way of public offer to the public in Singapore and placements to professional, institutional and/or other investors in Singapore and overseas (which may include an offer for sale by SCOMI to its shareholders) ("Proposed Public Offering"); and
- (b) the offering will be a combination of new shares offered for subscription and existing shares offered for sale.

The proposed structure of the Proposed Listing, including the issue price and the size of the Proposed Public Offering and the number of new shares in KMCOB/Newco to be issued, is subject to approvals by the relevant authorities/parties and the final approval of the Board of Directors of KMCOB.

The Proposed Listing is subject to the following approvals:

- (a) the SGX-ST;
- (b) the shareholders of the Company at an extraordinary general meeting to be convened;
- (c) the SCOMI Note Holders. The approval of the SCOMI Note Holders was obtained on 19 October 2006;
- (d) the Securities Commission ("SC") for the potential dilution of the Company's equity interest in KMCOB pursuant to the Proposed Listing. The approval of the SC was obtained on 19 October 2006.

3) Proposed Refinancing:

On 5 October 2006, the Company announced that KMCOB Capital Berhad ("KCB"), a wholly owned subsidiary of KMC Oiltools Bermuda Limited ("KMCOB") (which in turn was a 92.5% subsidiary of SCOMI) proposed to undertake an issuance of up to RM630 million nominal value Murabahah Notes.

The Murabahah Notes comprises 4 series with maturity dates ranging from four (4) years to seven (7) years from the date of issuance. The Murabahah Notes will not be listed on any stock exchange. All approvals on the Murabahah Notes had been obtained by 19 October 2006.

Proceed raised from the Proposed Murabahah Notes was drawn down on 14 December 2006 and will be utilised to settle intercompany advances within the SCOMI Group, repayment of bank borrowings as well as for working capital and

future capital expenditure requirements of the KMCOB Group.

The utilisations from date of drawdown to 31st December 2006 are as follows:

	RM '000
Gross proceeds	630,000
Share issue expenses	(4,608)
Settlement of SGB's Bonds	(250,000)
Repayment of Borrowings	(192,051)
Working capital & Capex for KMCOB Group	(8,472)
	<hr/>
Balance as at 31 st December 2006	174,869
	=====

(b) Proposed Pianca Acceleration

On 23 November 2006, the Company announced that it had on 22 November 2006 written to Mr Christopher Robert Pianca ("Mr Pianca") for an offer to acquire the remaining Pianca Tranche Two Option Shares and Pianca Tranche Three Option Shares (as explained below) under the Put and Call Option Agreement between SCOMI and Mr Pianca dated 30 January 2004 (and amended by an Amendment Agreement dated 27 July 2005) ("Pianca PCA"). The above offer to Mr Pianca is hereinafter referred to as the "Proposed Pianca Acceleration".

The Pianca Tranche Two Option Shares comprises 578,180 KMCOB Ordinary Shares and 46,139 "A" KMCOB Preference Shares whilst the Pianca Tranche Three Option Shares comprises 578,180 KMCOB Ordinary Shares and 46,138 "A" KMCOB Preference Shares.

Pursuant to the Amendment Agreement dated 27 July 2005 between SCOMI and Mr Pianca, the 1,156,360 KMCOB Ordinary Shares (under the Pianca Tranche Two Option Shares and Pianca Tranche Three Option Shares) was acquired by SCOMI on 29 July 2005 for a cash consideration of USD6,238,704.

In addition to the above, upon completion of the Company's acquisition of 1,156,360 KMCOB Ordinary Shares from Mr Pianca, the remaining 46,139 "A" KMCOB Preference Shares (pursuant to the Pianca Tranche Two Option Shares) and 46,138 "A" KMCOB Preference Shares (pursuant to the Pianca Tranche Three Option Shares) shall be acquired by SCOMI from Mr Pianca via put and call options in April 2007 and April 2009 for a purchase consideration to be calculated by a function of the profitability of KMCOB according to the terms of the Pianca PCA.

The Proposed Pianca Acceleration entails further variation to the existing Pianca PCA and is intended to streamline SCOMI's shareholding in KMCOB to facilitate the Proposed Listing. The indicative terms and conditions of the Proposed Pianca Acceleration (as set out in the Company's announcement dated 23 November 2006) are subject to the execution of agreement between SCOMI and Mr Pianca in due course.

(c) Acquisition of Anticor Chime S.A("Anticor"), France

On 31 August 2006, the Company entered into 2 Share Sale Agreements to acquire the entire issued and paid up capital of Anticor. The first Share Sale Agreement ("1st SSA") is in respect of the acquisition of 4,800 ordinary shares representing 80% of the issued and paid up share capital of Anticor ("80% Acquisition"), and the second Share Sale Agreement ("2nd SSA") is in respect of the acquisition of 1,200 ordinary shares representing the remaining 20% of the issued and paid up share capital of Anticor ("20% Acquisition").

The 80% Acquisition was completed on 31 August 2006 for a cash consideration of €600,000.

Under the 2nd SSA, the 20% Acquisition will be completed in 3 tranches for a total of €150,000 in cash, plus an amount to be calculated based on Anticor's profit after tax for the 3 financial periods ending 30 June 2007, 30 June 2008 and 30 June 2009.

(d) Joint Venture between KMC Oiltools Bermuda Limited and Enercon Nigeria Limited

The Company announced that pursuant to the JVA between KMCOB and Enercon dated 30 June 2006, a joint venture company, Titan Tubulars Nigeria Limited, has been incorporated on 21st September 2006.

(e) Status of the settlement of OPL Intercompany Receivable, pursuant to the condition by the Securities Commission ("SC") in relation to the disposal by the subsidiaries of SCOMI, KMC Oiltools Bermuda Limited ("KMCOB") and KMC Oiltools (Cayman) of the entire equity interests in Oiltools Pte Ltd (now known as OMS Oilfield Services Pte Ltd) ("OPL") and OMS Oilfield Holdings (Malaysia) to Scomi Engineering Bhd

On 21 September 2006, CIMB Investment Bank Berhad ("CIMB"), on behalf of the Company made an application to the SC for an extension of time of six (6) months from 15 December 2006 to 15 June 2007 for the settlement of the amount owing from KMCOB to OPL ("OPL Intercompany Receivable"). The SC had via its letter dated 9 October 2006 approved the proposed time extension.

Pursuant thereto, on 26 January 2007, CIMB, on behalf of the Company announced that the full settlement of the OPL Intercompany Receivable has been made on 26 January 2007.

Scomi Engineering Bhd

(a) Utilisation of Proceeds from Renounceable Rights Issue

On 20 January 2006, Scomi Engineering Bhd ("SEB") allotted and issued 57,552,000 new ordinary shares of RM1.00 each at an issue price of RM1.20 per share pursuant to the Right Issue. The cash proceeds from this issue amounted to RM69,062,400.

The proceeds were utilised as follows:-

	RM '000
Gross proceeds	69,062
Settlement of creditors pursuant to the composite scheme of arrangement	(14,918)
Expenses in relation to the corporate exercise	(4,365)
Working capital for business expansion	<u>(49,779)</u>
Balance as at 31 December 2006	<u>-</u>

(b) Proposed Acquisition of 10,400,002 ordinary shares of RM1.00 each in MTrans Transportation Systems Sdn Bhd ("MTrans"), representing forty percent (40%) of the issued and paid-up share capital of MTrans, for a total purchase consideration of RM25 million from MTrans Transportation Corporation Sdn Bhd (formerly known as Kiara Kilau) ("MTC") ("Proposed Acquisition")

On 31 January 2007, SEB announced that it had on the same date entered into a share sale agreement with MTrans Transportation Corporation Sdn Bhd (formerly known as Kiara Kilau Sdn Bhd) ("MTC") to acquire 10,400,002 ordinary shares of RM1.00 each in MTrans ("Sale Shares"), representing 40% of the issued and paid-up share capital of MTrans, for a total purchase consideration of RM25 million, to be satisfied in cash ("Proposed Acquisition").

Pursuant to the above, SEB had on 31 January 2007, paid RM2.5 million, representing 10% of the purchase consideration as a deposit to MTC. The remaining balance of RM22.5 million, representing 90% of the purchase consideration is payable to MTC upon the completion date of the share sale agreement.

The Proposed Acquisition is subject to the following approvals being obtained:-

- (a) the Ministry of International Trade ("MITI") for the sale and purchase of the Sale Shares;
- (b) the Foreign Investment Committee ("FIC") for the acquisition of the Sale Shares;
- (c) the shareholders of MTC for the disposal of the Sale Shares;
- (d) the noteholders of Scomi Group Bhd at a Bondholders' Meeting to be convened;
- (e) the financiers of MTrans Group for the disposal and acquisition of the Sale Shares (if required); and
- (f) any other relevant authorities/ parties/ bodies (if required).

B9. Group borrowings (Secured)

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

	RM`000
Short term borrowings	197,649
Long term borrowings	<u>1,132,705</u>
Total	<u>1,330,354</u>

The group borrowings are denominated in the following currencies:

	RM`000
Ringgit Malaysia	939,617
US Dollar	337,414
Sterling Pound	39,014
Canadian Dollar	13,467
Singapore Dollar	71
Australia Dollar	131
Others	<u>640</u>
Total	<u>1,330,354</u>

B10. Off balance sheet financial instruments

Financial Instruments

During the quarter under review, the Group has entered into some Cross Currency Interest Rate Swaps (CCIRS) that are designated as cash flow hedges for the Group's exposure to foreign exchange on its RM630million Murabahah Notes. The face or contract amount of the CCIRS entered todate amounts to RM613.5million, with the respective maturity dates as follows:

RM'million	Maturity Date
150.0	31.12.2010
150.0	31.12.2011
160.0	31.12.2012
<u>153.5</u>	31.12.2013
<u>613.5</u>	

Credit and Market Risk

The credit risk to the CCIRS is the credit risk of the financial institution, being the counterparty of the CCIRS, although such risk is remote given that the CCIRS are executed with creditworthy financial institution. The market risk of the CCIRS consists of interest rate risk and foreign currency exchange risk which are offset by the corresponding risks of the financial instrument itself.

Security

The swap providers of the CCIRS will share the same security as that given to the bond holders.

There is no additional collateral requirement for the CCIRS.

Accounting Policy

The related accounting policies have been disclosed under note A1(e).

B11. 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 adverse 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.

B12 Proposed Dividend

Subject to shareholders' approval at the forthcoming Annual General Meeting (AGM), the Directors have recommended a final ordinary dividend in respect of the financial year ended 31 December 2006 of 15% per share, less income tax of 27%, amounting to a dividend payable of approximately RM11,008,608 (2005: 12% less income tax of 28%, amounted to RM8,613,015).

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31-Dec-06	31-Dec-05	31-Dec-06	31-Dec-05
Basic earnings per share				
Net profit attributable to shareholders (RM'000)	25,152	109,539	84,545	151,692
Weighted average number of shares in issue (RM'000)	1,001,640	991,875	995,025	972,877
Basic earnings per share (sen)	2.51	11.04	8.50	15.59
Diluted earnings per share				
Net profit attributable to shareholders (RM`000)	25,152	109,539	84,545	151,692
Weighted average number of shares in issue (RM'000)	1,001,640	991,875	995,025	972,877
Dilutive effect of unexercised share option (RM'000)	31,047	46,134	22,482	42,956
	1,032,687	1,038,009	1,017,507	1,015,833
Diluted earnings per share (sen)	2.44	10.55	8.31	14.93