Scomi

SCOMI ENGINEERING BHD (111633-M)
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SCOMI ENGINEERING BHD (111633-M)

ANNUAL REPORT **2006**

Energy & Logistics Engineering

See Potential

Scomi Engineering Bhd
ANNUAL REPORT
2006

Scomi


See Scomi

Others see BREAKTHROUGHS.

WE SEE the merging of different spheres of specialisation and technology.

Others see VOLUME.

WE SEE conserving an environment that we have been benefiting from and sharing its wealth.


Others see EXPANSION
WE SEE bridging shores,
traversing borders and exploring gains.
See Potential. See Scomi

SCOMI ENGINEERING BHD

ANNUAL REPORT 2006

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23rd AGM

21st June 2007 Thursday 10.00 am

Banquet Hall, Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur.

KEY FINANCIAL INDICATORS &
KEY FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED 31 DECEMBER 2006

RM624.7 million
TOTAL ASSETS

RM360.7 million
SHAREHOLDERS' FUNDS

RM1.33
NET ASSETS PER SHARE

RM142.6 million
NET TANGIBLE ASSETS

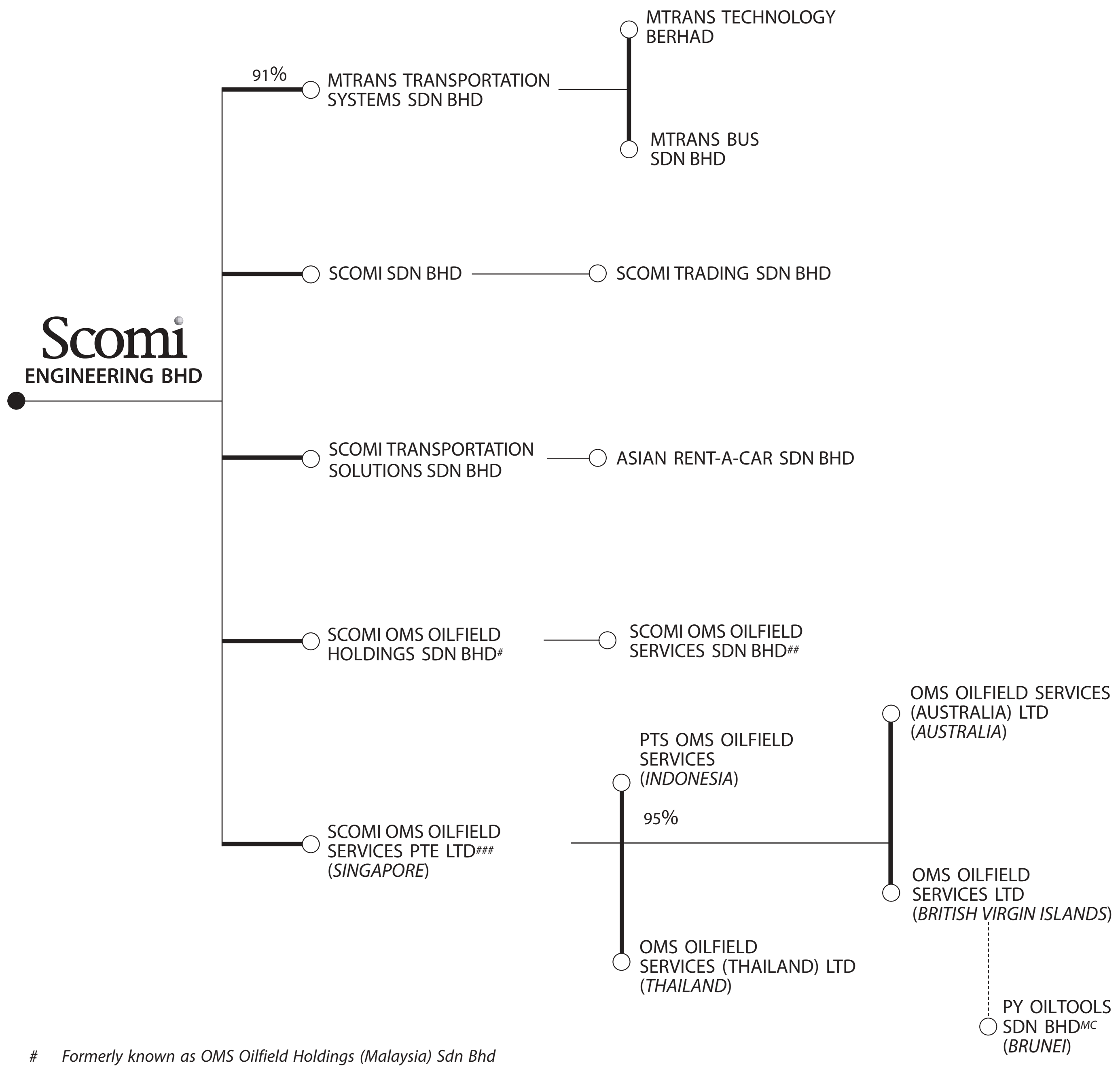
Turnover (RM Million)

Net Profit (RM Million)

NOTE:

2004 & 2005	:	*Unaudited pro forma financial results of the existing Scomi Engineering Bhd group of companies (excluding that of MTrans Transportation Systems Sdn Bhd and its subsidiary companies).*
2006	:	*Audited financial results of the Scomi Engineering Bhd group of companies.*

CORPORATE STRUCTURE



Formerly known as OMS Oilfield Holdings (Malaysia) Sdn Bhd

Formerly known as OMS Oilfield Services (Malaysia) Sdn Bhd

Formerly known as OMS Oilfield Services Pte Ltd (Singapore)

MC *Management control exercised over the company through contractual business arrangements.*

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1. *Except as otherwise expressly stated, all companies in this corporate structure are incorporated in Malaysia.*
2. *Except as otherwise expressly stated, all companies in this corporate structure are wholly owned by their respective holding companies*

CHAIRMAN'S STATEMENT

The financial year ended ("FYE") 31st December 2006 marked the maiden year in which Scomi Engineering Bhd's Energy & Logistics Engineering business and results were presented under its listed public limited company status. The listing of Scomi Engineering Bhd ("Scomi Engineering" or "Company") took effect on the 26th of January 2006, following the completion of the reverse take-over of Bell & Order Berhad by Scomi Group Bhd on the 15th of December 2005.

CHAIRMAN
Datuk Zainun Aishah binti Ahmad

Dear Stakeholder,

The Company undertook several investment decisions in 2006 to further transform and raise the profile of its business and technology capability and expand its global market reach. It acquired the new business portfolio of urban transportation solutions, ventured into joint development partnerships to gain technological expertise in the armoured vehicle business and expanded its machine shop network. These actions have resulted in a stronger, more competitive and sustainable global business for the Company.

On behalf of the Board of Directors, I am delighted to present the Annual Report and Audited Financial Statements of Scomi Engineering Bhd for the financial year ended 31st December 2006.

ECONOMIC & INDUSTRIAL ENVIRONMENT

The global economy in 2006 grew by an estimated 5.0%. Oil prices again reached record-highs for the second consecutive year. Oil prices rose, particularly in the first half-year, due to uncertainties over supply amid robust demand conditions and geopolitical tensions affecting some of the key oil-producing countries. This resulted in increased global drilling activity with the average active rig count rising by 14% in 2006 to 3,275 rigs.

The domestic economy, measured in Real GDP, grew by 5.9% in 2006 from 5.3% in 2005. On the supply side, manufacturing was the strongest growth sector, expanding by 7.0% compared to 5.1% in 2005. Capital investment in the manufacturing sector, as approved by the Ministry of International Trade and Industry (MITI) rose a healthy 48% to RM46.0 billion. The country's total trade surpassed the RM1 trillion-threshold to reach RM1.07 trillion, a 10.5% rise over the 2005 total. Between 1997 and 2006, total annual trade grew by 10.8% annually.

FINANCIAL PERFORMANCE

Financial Review

Turnover

The Company's turnover grew by 55% (on a pro-forma basis that assumes the same businesses have been operating together as a unit since 2005) to RM323.9 million for the FYE 31st December 2006. The increase was mainly due to the Energy Engineering's ("EE") exceptionally high turnover as well as the additional contribution from the newly acquired business of MTrans in July 2006.

Profit

The increase in Operating Expenditure ("OPEX") as a result of the inclusion of MTrans' OPEX, share option expenses and unrealised exchange losses arising from the US Dollar weakening, saw a relatively smaller Profit After Taxation ("PAT") growth of 16% to RM30.2 million. After deducting Minority Interest, net profit rose by 8.3% to RM28.3 million.

A slightly higher gross profit margin of 25.0% was recorded compared to 24.2% in 2005. This was achieved despite intense price competition and low margins derived from significant 'trading' orders for casings and connectors and the sale of Completely Knocked Down ("CKD") buses and aluminium tankers, refuellers and hydrant dispensers.

Contribution by Division and Geography

The Energy Engineering business constituted 64% of the Company's turnover while the rest was from Logistics Engineering ("LE") at 33% and non-core Fleet Management ("FM") at 3%. In terms of geographical contribution, our domestic businesses accounted for 41% of turnover while the remaining 59% came from international businesses. Singapore generated 50% of our turnover while Indonesia, Brunei, Australia and Thailand contributed 9% in aggregate. The contribution from Malaysia rose to 41% from 32% in 2005 as a result of the contributions from the MTrans business.

Dividends

Subject to shareholders' approval at the forthcoming Annual General Meeting ("AGM"), the Directors have recommended a final tax exempt dividend in respect of the FYE ended 31st December 2006 of 3% per share, amounting to a dividend payable of approximately RM8,118,827 (2005: Nil).

CORPORATE DEVELOPMENTS

Joint Development and Partnership

The Company announced that its wholly owned subsidiary, Scomi Sdn. Bhd. ("SSB"), had on the 25th and 26th of April 2006 respectively, entered into the joint development and marketing of armoured vehicles with two technology partners. The partnerships which are subject to the agreement of the relevant Governments, will lead to a technology transfer and raise our technological know-how:

A. Collaboration Agreement with Doosan Infracore Co., Ltd. of Korea
   i. To determine the parties' respective interest in establishing their future business relationship and collaboration in the development and tender participation for the supply of Armoured Tracked Load Carriers ("ATLCs") and their variants to the Malaysian Army.
   ii. To ensure the scope of the collaboration includes a bidding process for both local and international tenders, the development and transfer of technology for the ATLCs and the localisation of ATLC components.

B. Heads of Agreement with Nexter (formerly known as Giat Industries) of France
   i. To cooperate on the design modification, development and manufacture of Heavy Weighted Armoured Vehicles ("HWAV's") and possibly Light Weighted Armoured Vehicles ("LWAV's") for the Malaysian and French armed forces, respectively.

ii. To ensure the scope involves the setting up of a proposed joint venture to effect:
   a. for the LWAV's – the transfer of general design, development of detailed design, licensing of design, manufacture and marketing of the same;
   b. for the HWAV's – the licensing of the VBC-S Baseline Vehicle, development of the VBC-S variant sub-systems for the HWAV variants, licensing of the same for the manufacture and marketing of the HWAVs;
   c. the provision of technical support for the manufacture of the variants for the HWAVs and LWAVs.

Acquisition of MTrans Transportation Systems Sdn Bhd ("MTrans")

On the 10th of July 2006, the Company completed the acquisition of a 51% equity interest in MTrans for RM30 million cash. On the 3rd of April 2007, the Company completed the acquisition of an additional 40% equity interest in MTrans for RM25 million cash, raising its total stake in MTrans to 91%.

Full Settlement of the amount owing by KMC Oiltools Bermuda Limited ("KMCOB") to Scomi OMS Oilfield Services Pte Ltd (formerly known as OMS Oilfield Services Pte Ltd) ("SOOSPL")

On the 26th of January 2007, the full settlement of the inter-company owing by KMCOB to SOOSPL was completed. The inter-company receivable was a result of the acquisition by Scomi Engineering of the entire equity interests in SOOSPL and Scomi OMS Oilfield Holdings (Malaysia) Sdn Bhd (formerly known as OMS Oilfield Holdings (Malaysia) Sdn Bhd) from KMCOB and KMC Oiltools (Cayman) Ltd respectively ("KMCOC") on the 15th of December 2005 to facilitate the reverse take-over of Bell & Order Berhad by Scomi Group Bhd and the eventual re-listing of Scomi Engineering on the 26th of January 2006. KMCOB and KMCOC were then 100% subsidiary companies of Scomi Group Bhd, a 71% shareholder of Scomi Engineering.

Proposed Share Premium Reduction ("the Proposal")

On the 23rd of February 2007, the Company proposed to reduce its share premium account by up to RM35.9 million. Based on the audited accounts as at 31st December 2005, the Company recorded accumulated losses of RM35.9 million with a share premium amount totalling RM68.5 million. In the event the Proposal is approved and the exercise is completed, the share premium account will be reduced to RM32.6 million, assuming a full reduction of RM35.9 million. The Proposal would allow the accumulated losses to be written off as this development was in relation to the previous operations undertaken by the Company prior to the 15th of December 2005 restructuring exercise. The Proposal is expected to be completed within six months from the date of Scomi Engineering's shareholders' approval at the Annual General Meeting ("AGM").

Disposal of Scomi Transportation Solutions Sdn Bhd ("SCOTS")

On the 20th of March 2007, the Company proposed to dispose off its 100% interest in its non-core fleet management and car rental businesses SCOTS for RM3.8 million cash. This proposed disposal of non-core business is in line with Scomi Engineering's long term business strategy to focus on the Energy and Logistics Engineering business. The disposal will also help realise cash that can be better utilised to fund expansions that provide better returns.

PROSPECTS

Economic Outlook

Global

The global economic outlook for 2007 remains fairly optimistic. Despite a slight moderation in export growth expected in the first half of the year, overall growth will be sustained at above 4% for the fifth consecutive year. The International Monetary Fund ("IMF") forecasts that the global economic growth in 2007 will be reasonably strong at 4.5%. Prospects for the Eurozone look brighter following signs of a broad-based recovery in its major member countries while growth in the Asian region is expected to remain encouraging, increasingly supported by domestic demand, particularly in China and India. Growth in world trade in 2007 is projected at 4.5%.

Domestic

The Malaysian economy is poised to extend the streak of decent economic growth that it has shown in recent years. The economy is expected to have an improved growth performance, particularly in the second half of the year. Domestic demand will be sustained as improved consumer and business confidence translates into stronger private expenditure. Real GDP, in an environment of moderating inflation, is forecast to expand by 6.0% in 2007, compared to 5.9% in 2006. (Source: BNM Annual Report 2006)

Industry & Business Outlook

The organisational capabilities of Scomi Engineering Bhd are evolving as we work to tackle the challenges ahead and continue to create value for all our stakeholders. We will diligently maintain a strong customer focus in our revenue-generating operations and will pursue all avenues to manage opportunities and risks as we build up each of our new operations.

Energy Engineering

The Energy Engineering division's business is dependent upon oil and gas drilling-related activity. The anticipated increase in global oil and gas exploration as well as development and production activities will have a positive impact on demand for our machine shop services. In 2007, the international rig count (excluding the US, Canada, Russia and China) is projected to rise by 6%. Africa will lead the way in 2007 with an 18% gain in activity, followed by Middle East (+13%), Central & South America (+4%), and the Far East (+2%). Europe's rig count however will drop by 1%. Total spending in these markets to drill and complete new wells is expected to reach USD79.7 billion in 2007, up by 16%. (Source: Drilling & Production Outlook – March 2007, Spears & Associates, Inc.)

With the anticipated rise of exploration and development activities in deepwater and ultra deepwater activities, we are optimistic of the demand for our Energy Engineering services. The acquisition of a new deepwater technology will be crucial in our strategy to meet this requirement and provide more value-added products and services to our clients.

Logistics Engineering

Some re-balancing of growth is likely as exports moderate, leaving domestic demand as the key growth driver owing to the acceleration of public spending on the Ninth Malaysia Plan (9MP) projects. Moving into 2007, the implementation of the 9MP and the Third Industrial Master Plan (IMP3) should spur growth of private investment.

Following two successive years of fiscal consolidation, the Malaysian Government now has the fiscal flexibility to budget a sizeable amount of development spending, thus providing some cushion for domestic growth should the export sector decelerate sharply. Already, we have seen positive news flow in recent months, which is expected to crystallise in the 2007–2008 period, reflecting the Government's firm commitment to speed up the implementation of 9MP projects.

The 9MP allocation of RM15 billion for Defence and RM5.2 billion for Rail & Urban Transportation augurs well for our LE business. In relation to the monorail business, Penang and Johor Bahru are among the most densely populated cities that are increasingly contemplating the use of the system to ease its road traffic congestion issues, which bodes well for our monorail business.

APPRECIATION

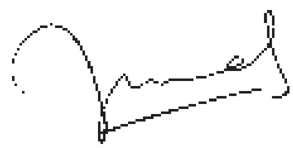
On behalf of the Board, I wish to express my gratitude to the Government and regulatory authorities; our loyal stakeholders and shareholders, customers, business associates and vendors, and financiers, for their continued confidence and support of the Company. My heartfelt appreciation goes to my fellow directors for their expert foresight and counsel.

Our achievements would not have been possible without the hard work and commitment of our management and employees to whom we are most grateful. In a challenging industry, our investors can always be confident of the amazing team of people we have assembled to run this business.

I would also like to take this opportunity to thank Mr Gregory Fernandes who has resigned from the Board as an Independent Non-Executive Director, for his contribution to the Company during his term of office. I would also like to welcome on board Dato' Nordin bin Baharudin who was appointed as an Independent Non-Executive Director of the Company on 18th January 2007.

With everyone's continued support and dedication, we are confident that the Company will rise to the challenges in the coming years and achieve its goal of becoming a key player in the global Energy and Logistics Engineering sector.

Sincerely,



Datuk Zainun Aishah binti Ahmad
Chairman
Scomi Engineering Bhd

SCOMI ENGINEERING BHD MADE SOME GREAT STRIDES FORWARD IN 2006. CAN YOU GIVE US AN OVERVIEW OF THESE INITIATIVES?

The year under review was in many ways a watershed year for Scomi Engineering Bhd ("Scomi Engineering" or "Company"). We expanded our regional presence and invested in technology to gain market leadership and create our niche. Two major achievements for the Company during the year were the recurring orders for the Singapore Machine Shop from a customer in Saudi Arabia and the addition of urban transportation solutions and technology through the acquisition of MTrans Transportation Systems Sdn Bhd ("MTrans").

CHIEF EXECUTIVE OFFICER
Shah Hakim Zain

WHAT ARE SCOMI ENGINEERING'S CORE BUSINESS ACTIVITIES?

Today, Scomi Engineering is involved in two broad engineering business categories namely:

- *Energy Engineering*
  Via our Machine Shop ("MS") facilities, Scomi Engineering provides premium threading services for Oil Country Tubular Goods ("OCTG") which are pipes, parts and accessories designed with high tolerance to pressure, temperature, bending and load.

- *Logistics Engineering*
  Our Logistics Engineering division caters for the design and manufacture of transportation logistics solutions and is divided into four business segments, namely the special purpose vehicles, rail wagon, monorail, and bus segments.

CAN YOU GIVE US AN OVERVIEW OF THE ENERGY ENGINEERING DIVISION?

The Energy Engineering ("EE") division specialises in providing premium threading services for OCTG which are the pipes and accessories used in the oil and gas industry. The division has been involved in this business for the last 26 years.

We operate from seven locations in six countries. We cater to international customers such as oil majors like Petronas, Shell, Saudi Aramco and ExxonMobil; oilfield services companies such as Schlumberger, Halliburton and Smith International; and drilling contractors like Transocean, Ensco and Smedvig.

We hold multiple licenses for various premium patented threads and have the most comprehensive threading licenses in this region. In 2006, we added API and ISO to our growing list of renowned patent owners such as VAM, Hydril, NSCT, Fox, Hunting, Grant PrideCo and Tenaris. These licenses are renewable by the patent owners and our facilities and processes are subjected to regular audits to ensure adherence to the standards that meet the stringent demands of the oil and gas industry.

WHAT ARE THE ACTIVITIES OF THE LOGISTICS ENGINEERING DIVISION?

The Logistics Engineering ("LE") division is divided into four business segments which cater for the design and manufacture of Special Purpose Vehicles ("SPV's"), rail wagons, monorail vehicle and buses.

The SPV unit has over 16 years of experience and expertise in the design, fabrication and manufacture of SPV's. It has been supplying SPV's to municipal councils, corporations and overseas markets in sectors such as defence, health, commercial, transportation and aviation. The current focus is on a select range of key products namely compactors, aluminium tankers, airport ground vehicles, aircraft refuellers, pressure vessels, hydrant dispensers and desludging tankers. The design and manufacture works are carried out at its factory in Kampung Baru Subang, Malaysia.

The Rail unit provides overhauling services for rail wagons. It is currently overhauling 1,500 wagons owned by Keretapi Tanah Melayu Berhad ("KTMB") under a 5-year contract. A mini workshop has been set up at its Klang Depot to undertake the overhauls of the wagon.

The Monorail unit is one of the few players in the world to offer urban monorail transit technology. The unit's track record in the design, manufacture and commission of 12 monorail train sets of two-car vehicles and related systems and equipment for the Kuala Lumpur Monorail, bears testimony to its technological expertise and experience. The monorail unit, MTrans Technology Berhad ("MTech"), was acquired in July 2006.

The Bus unit is in the business of bus body fabrication for local and overseas bus operators. The product range includes city buses, intercity buses and tour buses which can be either Completely Built-Up ("CBU") or Completely Knocked Down ("CKD") units. In addition, the unit also provides maintenance services. This unit currently operates under MTrans Bus Sdn Bhd ("MTBus").

HOW DID SCOMI ENGINEERING FARE FINANCIALLY OVER 2006?

For the financial year ended ("FYE") 31st December 2006, the Company's turnover grew by 55% to RM323.9 million from financial year ("FY") 2005 (on a pro-forma basis that assumes the same businesses have been operating together as a unit since 2005). The growth was attributable to the increased EE turnover on the back of recurring orders for casings and connectors as well as new contribution from MTrans (acquired in July 2006). The EE business generated 64% of the Company's turnover while the rest was contributed by LE business at 33% and non-core Fleet Management ("FM") business at 3%.

Despite strong top-line growth, Profit After Taxation ("PAT") only grew by 16%. This was due to the low PAT contribution from LE division owing to the increase in Operating Expenditure ("OPEX") as a result of the operating costs associated with MTrans' operations. Share option expenses of RM3 million, unrealised exchange losses of RM1.9 million from the weakening of the US Dollar further contributed to the lower PAT. After Minority Interest, Net Profit rose by 8%.

WHAT WERE SCOMI ENGINEERING'S EPS, GP MARGINS AND CONTRIBUTIONS BY COUNTRY?

Earnings per share ("EPS") fell to 10.6 sen from 12.9 sen due to the much higher shares base. Overall, the Company achieved a slightly higher Gross Profit ("GP") margin of 25.0% from 24.2% last year. This result was achieved despite the significant 'trading' orders for casings and connectors from Saudi Arabia with below-average margins and the relatively small margins from the sale of CKD buses as well as aluminium tankers, refuellers and hydrant dispensers (due to the intense price competition).

Singapore, with its exponential EE business growth, generated 50% of our turnover; followed by Malaysia at 41% (compared to 32% last year) as a result of the addition of the MTrans business. Indonesia, Brunei, Australia and Thailand contributed 9% in aggregate to turnover.

HOW DID THE RESPECTIVE DIVISIONS FARE?

For FY 2006, our Energy Engineering business registered a 35% growth in turnover to RM208.3 million. The LE division posted a 111% growth in turnover to RM107.4 million as a result of the consolidation of MTrans' business acquired in July 2006.

WHAT IS THE OUTLOOK FOR THE ENERGY ENGINEERING DIVISION?

The EE division is positioning itself to become a major player in the region via capacity expansion and product range enhancement. Existing facilities will be expanded, comprehensive services introduced, and connector technology and processes improved so that the division can offer premium quality products and services. The division plans to acquire a new deep water connector technology and have set aside USD3 million from 2007 to 2010 for this purpose.

Our Singapore facility expansion was concluded in December 2006. The Labuan facility is undergoing expansion and will be able to offer plain end threading services at its new location when completed in Q2 of 2007. Our new Irian Jaya facility also expects to commence operations in May 2007 whilst our new set-up in Saudi Arabia is expected to be completed in Q3 of 2007. The facility in Saudi Arabia will cater to its current clientele as well as leverage on its client base to increase market share in the Middle East region. The Brunei MS is expected to introduce additional enhanced services such as hard-banding and in-house tubular inspection for clients such as Shell, Deutag, Ensco and Smedvig which will further raise the competitiveness of this facility. Plans are also afoot to set up an operation in Sakhalin Island in Q4 of 2007.

By end of the 2007 financial year, we hope to see our EE presence rise to ten locations in nine countries, from seven locations in six countries. This capacity expansion arising from new and existing locations coupled with product development enhancements shall put the division in good stead to meet the expected increase in demand for its services.

WHAT ARE THE PLANS FOR THE LOGISTICS ENGINEERING DIVISION?

The LE division is expected to contribute more significantly to Scomi Engineering's financial performance in 2007. With the acquisition of an additional 40% equity interest in MTrans (completed on 3rd April 2007), which will bring its stake to 91%, the division has added its product ranges to the unit's portfolio as well as expanded its market presence regionally.

We have embarked on an intensive R&D drive for the newly acquired monorail technology so as to be able to compete more effectively in the international scene. While exploring the local market, the unit has also been marketing its solutions to neighbouring regional countries and the Middle East. Today, MTrans already has a presence in Hong Kong and Bangladesh and it has also formed strategic alliances to allow it to participate in bids and proposals for the supply of monorail systems for a number of projects locally and overseas. Overall, there are 29 monorail projects internationally that we have either made proposal for, or planning for a proposal.

For the Malaysian market, MTBus has embarked on plans to expand its bus sales. The initiative by Rapid KL (a Malaysian Government owned transport operator) to embark on a fleet replacement programme has prompted other operators to emulate the same. This opens up opportunities for MTBus, which is one of the suppliers for Rapid KL, with proven good track record. In relation to the export market, Macau, Bangladesh and Hong Kong are among our destinations of choice.

The division also continues its efforts to drive its defence business in the manufacture and marketing of select ranges of armoured vehicles for the region and the export market. For the purpose of technology transfer, we have embarked on technical collaborations with French-based Nexter (formerly known as GIAT) and Korean company Doosan Infracore. We anticipate that these partnerships will show significant progress next year.

WHAT STRATEGIC INITIATIVES HAVE YOU UNDERTAKEN TO BOLSTER YOUR OPERATIONS?

In aligning our internal process, practice and structure with our parent company Scomi Group Bhd ("Scomi"), we have embarked on a branding exercise which include several internal organisational initiatives to further streamline our operations. As part of the branding initiative, we will be incorporating Scomi as part of our name and will adopt a single Scomi logo throughout the organisation.

Business Excellence for Scomi's Transformation ("BEST") Project is one of the initiatives. Scomi has embarked on this initiative to improve its operational processes in line with industry best practices so that it can accelerate forward on the international front. This initiative from the corporate head office has also included the Scomi Engineering business and we are in the process of implementing the various action plans as identified under the project's 5 main streams which are sales and marketing, operations which includes manufacturing, finance, human resource and information technology. Scomi Engineering will leverage on Scomi to meet its operational excellence needs through the shared services and specialised support services provided by Scomi.

We believe that this project will change the way we conduct our business for the better, as operational, functional and process efficiencies will now be enhanced.

As part of the overall branding exercise also, all employees are undergoing a communication programme and all company names will be changed to include *Scomi* in it. This is in line with a master brand strategy adopted throughout the Scomi group where a common brand vision is shared. The branding exercise is expected to create a powerful platform to unite all aspects of the organisation so that we can enhance value for our shareholders, derived from not only better products and services to our customers but also an improved experience of dynamic partnership.

WHAT ARE THE PROSPECTS FOR THE ENERGY ENGINEERING DIVISION?

The prospect for our EE division is dependent on oil and gas drilling-related activity. According to the latest report by Spears & Associates, Inc (March 2007), among the positive industry expectations for 2007 are:

- An 8% increase in overall worldwide drilling rigs
- A 11% increase in the US rig counts, which account for 52% of total rigs
- A 16% increase in expenditure to drill and complete new wells in the international market
- A 2% increase in world oil use
- A 13% increase in spending in Far East (East Asia) for new wells drilling and equipment to $23.6 billion.

The forecasted increase in global oil and gas exploration as well as development and production activities will positively impact demand for our services. In 2007, the international rig count (excluding US, Canada, Russia, and China) is projected to rise by 6%. Africa will lead the way with an 18% gain in activity, followed by Middle East (+13%), Central & South America (+4%), and the Far East (+2%). Rig count in Europe however will drop by 1%. Total spending in these markets is expected to reach USD79.7 billion in 2007, up by 16%.

Moreover, with the anticipated exploration and development activities increasingly on the rise for deepwater and ultra deepwater activities over the next few years, we are optimistic that our MS strategy for the new deep water connector technology will bear fruit.

HOW ABOUT THE OUTLOOK FOR THE LOGISTICS ENGINEERING DIVISION?

With the increasing need for viable, quality, and cost-efficient transportation solutions in the region, the Company is confident that it is well positioned, both in capability and presence, to take advantage of this demand. The expected launch of the new and enhanced next generation Monorail Train prototype in Q3 2007 will provide the impetus for this business going forward.

Domestically, the RM15 billion allocation for Defence and the RM5.2 billion for Rail & Urban Transportation in the Ninth Malaysia Plan (9MP), should augur well for our LE business. For the monorail segment in particular, we are technologically competent and capable of providing solutions to address the mass transportation needs.

HOW DO YOU SEE SCOMI ENGINEERING FARING IN 2007 AND BEYOND?

Year 2007 will be another year of expansion, particularly with regard to new technology and capacities.

We are taking steps to target key and emerging markets, by geography, client and niche requirement, so as to be able to use our resources in a more astute manner. It is also imperative that the Company makes a conscious effort to raise brand awareness in the competitive global market.

Going forward, we will align our resources, streamline our balance sheet and organise our operations towards further growing Scomi Engineering into a trusted energy and logistics engineering solutions player.

We are confident that as we continue to tap innovation, technology, environment, brand-related initiatives and sound management to drive our business forward and take advantage of the many opportunities in the marketplace, we will reach our aspirations of becoming an effective global competitor that realises potentials of our resources, customers and other stakeholders.

Shah Hakim Zain
Group Chief Executive Officer

CORPORATE INFORMATION

DIRECTORS

Datuk Zainun Aishah binti Ahmad (Chairman)

Dato' Abdul Rahim bin Abu Bakar

Dato' Nordin bin Baharuddin

Edlin bin Ghazaly

Fad'l bin Mohamed

Shah Hakim @ Shahzanim bin Zain

OPTIONS COMMITTEE

Edlin bin Ghazaly (Chairman)

Dato' Abdul Rahim bin Abu Bakar

Shah Hakim @ Shahzanim bin Zain

REMUNERATION COMMITTEE

Datuk Zainun Aishah binti Ahmad (Chairman)

Dato' Abdul Rahim bin Abu Bakar

Shah Hakim @ Shahzanim bin Zain

NOMINATION COMMITTEE

Datuk Zainun Aishah binti Ahmad (Chairman)

Dato' Abdul Rahim bin Abu Bakar

Edlin bin Ghazaly

AUDIT AND RISK MANAGEMENT COMMITTEE

Dato' Nordin bin Baharuddin (Chairman)

Dato' Abdul Rahim bin Abu Bakar

Edlin bin Ghazaly

Fad'l bin Mohamed

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E-mail : info@scomiengineering.com.my

REGISTRAR

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Fax : 603-2721 2530/31

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Malaysia

Lee Hishammuddin Allen & Gledhill
Advocates & Solicitors
Level 16, Menara Asia Life
189, Jalan Tun Razak
50400 Kuala Lumpur
Malaysia

COMPANY SECRETARIES

Chong Mei Yan (MAICSA 7047707)
Kuok Yew Lee (MAICSA 7052080)

AUDITORS

PricewaterhouseCoopers (AF 1146)
Chartered Accountants
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P.O.Box 10192
50706 Kuala Lumpur
Malaysia

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P.O. Box 11212
50738 Kuala Lumpur
Malaysia

CIMB Bank Bhd
Bangunan CIMB, Jalan Semantan
Damansara Heights
50490 Kuala Lumpur
Malaysia

RHB Bank Berhad
Tower Three, RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur

STOCK EXCHANGE LISTING

Second Board of Bursa Malaysia Securities Berhad
Stock Name: Scomien
Stock Code: 7366

CURRENCY

Ringgit Malaysia (RM)

Datuk Zainun Aishah binti Ahmad

Dato' Abdul Rahim bin Abu Bakar

Dato' Nordin bin Baharuddin

Datuk Zainun Aishah binti Ahmad

Chairman, Independent Non-Executive Director

YBhg Datuk Zainun, a Malaysian, aged 60, was appointed to the Board on 15 December 2005. She is also the Chairman of the Company's Remuneration Committee and Nomination Committee.

YBhg Datuk Zainun graduated from University of Malaya with an Honours Degree in Economics. YBhg Datuk Zainun began her career with Malaysian Industrial Development Authority ("MIDA"), the Malaysian government's principal agency for the promotion and coordination of industrial development in the country where she worked for 35 years. In her years of service, she held various key positions in MIDA as well as in some of the country's strategic council, notably her pivotal role as National Project Director in the formulation of Malaysia's first Industrial Master Plan and as a member of the Industrial Coordination Council in the implementation of the Second Industrial Master Plan. She was the Director-General of MIDA for 9 years and Deputy Director-General for 11 years.

YBhg Datuk Zainun was a Director of Tenaga Nasional Berhad, Kulim Hi-Tech Park and Kelantan Industrial Development Authority. YBhg Datuk Zainun also sits on various committees/authorities at national level, including being a member of the Industrial Coordination Act Advisory Council, Defence Industry Council, National Committee on Business Competitiveness Council, Malaysia Incorporated and the National Project for Majlis Penyelarasan Perindustrian (ICC) before retiring in September 2004.

YBhg Datuk Zainun's other directorships in public companies are Malayan Banking Berhad, Dunham-Bush (Malaysia) Bhd, Microlink Solutions Berhad and Pernec Corporation Bhd. Save for Pernec Corporation Bhd, all the above companies are listed on Bursa Malaysia Securities Berhad.

YBhg Datuk Zainun attended all eight (8) Board Meetings of the Company held during the financial year ended 31 December 2006.

Dato' Abdul Rahim bin Abu Bakar

Independent Non-Executive Director

YBhg Dato' Rahim, a Malaysian, aged 61, was appointed to the Board on 15 December 2005. He served as Chairman of the Risk Management Committee until 5 February 2007 when the Committee was dissolved upon the formation of the Audit and Risk Management Committee. He is also a member of the Company's Options Committee, Remuneration Committee, Nomination Committee, and Audit and Risk Management Committee.

YBhg Dato' Rahim graduated from the Brighton College of Technology, United Kingdom with B.Sc (Hon) Electrical Engineering in 1969. YBhg Dato' Rahim is a member of the Institute of Engineers Malaysia (MIEM) and associated with Professional Engineer, Malaysia (P.Eng). He also holds the Electrical Engineer Certificate of Competency Grade 1. YBhg Dato' Rahim began his career in 1969 with the then National Electricity Board. He was attached to the organisation for 10 years in various technical and engineering positions before he moved on to the private sector. From 1979 to 1983, he served with Pernas Charter Management Sdn Bhd, a management company for the tin mining industry. Then, from late 1983 to 1991, he was attached to Malaysia Mining Corporation Berhad (MMC) in various senior positions. Later from 1991 to 1995, he moved on to MMC Engineering Services Sdn Bhd and subsequently to MMC Engineering Group Berhad as the Managing Director. In May 1995, he joined Petronas to assume the position of Managing Director of Petronas Gas Berhad (PGB) and subsequently moved on to Petronas as its Vice President, in charge of the Petrochemical Business in 1999. He retired from Petronas on 31 August 2002.

YBhg Dato' Rahim's other directorships in public companies are TIME dotCom Berhad, UEM Builders Berhad and UEM World Berhad, all are listed on Bursa Malaysia Securities Berhad, and Bank Pembangunan Malaysia Berhad and its subsidiaries, namely BI Credit & Leasing Berhad and Global Maritime Ventures Berhad, all are non-listed companies.

YBhg Dato' Rahim attended seven (7) of the eight (8) Board Meetings of the Company held during the financial year ended 31 December 2006.

Dato' Nordin bin Baharuddin

Independent Non-Executive Director

YBhg Dato' Nordin, a Malaysian, aged 57, was appointed to the Board on 18 January 2007. He is also the Chairman of the Company's Audit and Risk Management Committee.

YBhg Dato' Nordin holds a Bachelor of Science in Economics with Honours from London School of Economics & Political Science. He is a Chartered Accountant of The Malaysian Institute of Accountant ("MIA") and a Fellow of the Institute of Chartered Accountants in England and Wales. He is active in local professional accounting bodies through his membership of the Malaysian Institute of Certified Public Accountants (MICPA) where he is Vice-President, and is a Council Member and former Chairman of the Accounting and Auditing Committee and Practice Review Committee of the MIA. He is also a Member of the Malaysian Financial Reporting Foundation. YBhg Dato' Nordin is also a Member of the Mongolia Institute of Certified Public Accountants and helped develop the profession in Mongolia as well as provided professional advice to the corporate sector through his participation as Partner in Charge of Ernst & Young Mongolia. He is also a member of the Working Group on Corporate Governance for the Islamic Financial Services Board.

YBhg Dato' Nordin retired as Chairman of Ernst & Young Malaysia in 2004 after 35 years in the accounting and auditing sector in Malaysia and overseas.

Currently, YBhg Dato' Nordin is the Senior Advisor to Citibank Berhad.

YBhg Dato' Nordin's other directorships in public companies are KUB Malaysia Berhad, Sarawak Enterprise Corporation Berhad, Visdynamics Holdings Berhad and Malaysian Rating Corporation Berhad. Save for Malaysian Rating Corporation Berhad, all the above companies are listed on Bursa Malaysia Securities Berhad.

Edlin bin Ghazaly

Fad'l bin Mohamed

Shah Hakim bin Zain

Edlin bin Ghazaly

Independent Non-Executive Director

Encik Edlin, a Malaysian, aged 41, was appointed to the Board on 20 December 2004. He is also the Chairman of the Company's Options Committee and a member of the Company's Nomination Committee, and Audit and Risk Management Committee.

Encik Edlin read law at the International Islamic University (IIU), graduating in 1989, and was admitted to the Malaysian Bar in 1990. Over the past 16 years, he has established a notable career in the legal profession and set up his own practice in 1994.

Encik Edlin attended all eight (8) Board Meetings of the Company held during the financial year ended 31 December 2006.

Fad'l bin Mohamed

Independent Non-Executive Director

Encik Fad'l, a Malaysian, aged 39, was appointed to the Board on 15 December 2005. He is also a member of the Company's Audit and Risk Management Committee.

Encik Fad'l holds an Honours Degree in Law from University of London, and a Certified Diploma in Accounting and Finance (Association of Chartered Certified Accountants). He started his career as a lawyer in Messrs. Rashid & Lee in 1991. He then joined the Securities Commission in 1993 to serve in the Take-overs and Mergers Department and subsequently in the Product Development Department. Between 1996 to 1999, he was attached to the Kuala Lumpur offices of Dresdner Kleinwort Benson, a global investment bank. From 2000 to 2003, he was the Joint-Chief Operating Officer of Kuala Lumpur Industries Holdings Berhad and was involved in its debt and corporate restructuring exercise. He then set up Maestro Capital Sdn Bhd, a licenced Investment Adviser and is currently providing advisory services in the areas of mergers and acquisitions and capital raising. He is also an independent investment committee member of CIMB-Principal Asset Management Berhad and also serves as a Director of Realmild (M) Sdn Bhd and various other private companies.

Encik Fad'l attended seven (7) of the eight (8) Board Meetings of the Company held during the financial year ended 31 December 2006.

Shah Hakim bin Zain

Chief Executive Officer, Non-Independent Executive Director

Encik Shah Hakim, a Malaysian, aged 42, was appointed to the Board on 15 December 2005. He is also a member of the Company's Options Committee and Remuneration Committee.

Encik Shah Hakim holds a Bachelor of Science (Accounting) from University of Pacific, United Stated of America. He started his career as an auditor with Ernst & Young and was subsequently promoted as Consulting Manager, responsible for servicing large corporations. He went on to be appointed as Executive Director of a regional packaging manufacturer in 1992, with direct operational responsibility.

Encik Shah Hakim's other directorships in public companies are Sapura Industrial Berhad, Scomi Group Bhd, Scomi Marine Bhd and KMCOB Capital Berhad. Save for KMCOB Capital Berhad, all the above companies are listed on Bursa Malaysia Securities Berhad.

Encik Shah Hakim attended all eight (8) Board Meetings of the Company held during the financial year ended 31 December 2006.

Note:

None of the Directors have any family relationship with any other Director and/or major shareholder of Scomi Engineering Bhd.

With the exception of the disclosure in page 37, none of the Directors are involved in any conflict of interest, or any personal interest in any business arrangement, involving Scomi Engineering Bhd.

None of the Directors have been convicted for offences within the past 10 years (other than traffic offences, if any).

MANAGEMENT
TEAM












1st row from left to right:

Hilmy Zaini Zainal
Senior Vice President

Greg Fernandes
Chief Financial Officer

Zubaidi Harun
Head – Business Development

Alan Tan
Head – Machine Shop Division

2nd row from left to right:

Wan Zakaria Wan Taib
Head – Corporate Development,
Machine Shop Division

Mohamed Ibrahim Packeer Mohamed
Head – Manufacturing

Wan Azmi Wan Yusoff
Rail Transportations

3rd row from left to right:

Mervin Appanna
Manufacturing, Bus

Che Lokman Che Omar
Manufacturing, Special Purpose Vehicles

4th row from left to right:

Tony Prove
Special Projects, Monorail

Johnny Boulianne
Vehicle Design, Monorail

5th row from left to right:

Mark Staib
Manufacturing, Monorail

CORPORATE GOVERNANCE
STATEMENT

GOOD CORPORATE GOVERNANCE PROMOTES TRANSPARENCY, ACCOUNTABILITY, INTEGRITY AND OVERALL CORPORATE PERFORMANCE

The Board of Scomi Engineering Bhd ("the Board") is supportive of the adoption of the principles and best practices of the Malaysian Code on Corporate Governance ("Code") for Scomi Engineering Bhd ("the Company"). It recognises that the adoption of good governance is critical for the protection and enhancement of stakeholders' value and the overall performance of the Company.

The following statement details the Board's commitment and sets out the practices that the Company has taken with respect to each of the key principles and the extent of its compliance with the Code.

I. DIRECTORS

The Board and Board Balance

The principal role of the Board is to protect and enhance shareholder value through strategic supervision of the Company and its wholly owned subsidiaries. In view of that, the Board has clear goals relating to shareholder value and its growth. It provides direction and exercises appropriate control to ensure that the Company is managed in a manner that fulfils shareholder aspirations and societal expectations.

The Company has adopted a number of processes to ensure the effectiveness of the Board in discharging its duties and responsibilities. The Board is of the opinion that its current composition and size constitutes an effective Board to the Company. The Board comprises six (6) Directors, of which five (5) are Independent Non-Executive, with diverse backgrounds, skills and experience in the areas of business, economics, legal, finance, general management and strategy that is vital to the successful direction of the Company.

THE BOARD IS COMMITTED TO THE HIGHEST STANDARD OF CORPORATE GOVERNANCE. AS A MINIMUM, THE PRINCIPLES AND BEST PRACTICES OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE IS PRACTISED IN THE COMPANY. IN DISCHARGING ITS DUTIES, THE BOARD ENSURES THE HIGHEST STANDARDS OF DILIGENCE, CARE, HONESTY, TRANSPARENCY AND CORPORATE ACCOUNTABILITY.

The profiles of the members of the Board are set out on pages 20 to 23 of this Annual Report.

There is a clear division of roles and responsibilities between the Chairman of the Board and the Executive Director / Chief Executive Officer ("CEO"). The Chairman is responsible for ensuring the Board's effectiveness whilst the CEO is responsible for operational and business units' organisational effectiveness and implementation of directives, strategies and decisions.

THE BOARD AND ITS COMMITTEES

The Board has delegated specific responsibilities to five (5) committees of the board (Audit, Nomination, Remuneration, Options and Risk Management Committees).

On 5 February 2007, the Audit Committee and the Risk Management Committee were dissolved and a new Audit and Risk Management Committee was formed, in line with the practice of its holding company.

Composition of the Board and its Committees during the year under review are:

	Board of Directors	**Audit Committee** (dissolved on 5 February 2007)	**Nomination Committee**	**Remuneration Committee**	**Options Committee**	**Risk Management Committee** (dissolved on 5 February 2007)	**Audit and Risk Management Committee** (formed on 5 February 2007)
Chairman Datuk Zainun Aishah binti Ahmad **Independent Non-Executive Director**	C	–	C	C	–	–	–
Independent Non-Executive Directors							
Dato' Abdul Rahim bin Abu Bakar	M	–	M	M	M[1]	C	M
Dato' Nordin bin Baharuddin (appointed on 18 January 2007)	M	C	–	–	–	–	C
Edlin bin Ghazaly	M	M	M[1]	–	C	M	M
Fad'l bin Mohamed	M	M	–	–	–	M	M
Gregory Jerome Gerald Fernandes (resigned on 18 July 2006)	M	C	–	–	M	–	–
Non-Independent Executive Director Shah Hakim @ Shahzanim bin Zain	M	–	M[2]	M	M	–	–

C – Chairman M – Member

Note: [1] Appointed on 9 February 2007

[2] Resigned on 9 February 2007

BOARD MEETINGS AND SUPPLY OF INFORMATION

During the financial year ended 31 December 2006, eight (8) Board Meetings were held. The attendance records of the Directors, together with their attendance at Committee meetings are:

	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Options Committee	Risk Management Committee
Datuk Zainun Aishah binti Ahmad	8/8	–	1/1	1/1	–	–
Dato' Abdul Rahim bin Abu Bakar	7/8	–	1/1	1/1	–	1/1
Edlin bin Ghazaly	8/8	5/5	–	–	1/1	1/1
Fad'l bin Mohamed	7/8	5/5	–	–	–	1/1
Gregory Jerome Gerald Fernandes (resigned on 18 July 2006)	5/5	3/3	–	–	–	–
Shah Hakim @ Shahzanim bin Zain	8/8	–	0/1	0/1	1/1	–

The Board is provided with timely information which allows them to discharge their responsibilities effectively and efficiently. Prior to each Board or Committee meeting, each Director is supplied with an agenda together with a set of relevant documents and papers, in sufficient time, to enable the Directors to review the matters to be deliberated and discussed during the meeting.

APPOINTMENT TO THE BOARD

The Nomination Committee is responsible for the appointment of new Directors to the Board. The proposed appointment of new Directors and the proposed re-election of existing Directors are reviewed and assessed by the Nomination Committee. The Nomination Committee submits its recommendation on the proposed appointment or re-election of Directors to the Board for approval.

The Nomination Committee ensures an effective process for the selection of new Directors and the assessment of the Board and individual Directors towards ensuring the optimum mix of skills, experience and responsibilities being present in the Board.

During the financial year under review, Gregory Jerome Gerald Fernandes retired in accordance with Articles 80 and 81 of the Company's Articles of Association and was re-elected at the 22nd Annual General Meeting held on 26 June 2006. At the same meeting, the following directors retired under Article 87 of the Company's Articles of Association and were re-elected:

- Datuk Zainun Aishah binti Ahmad
- Dato' Abdul Rahim bin Abu Bakar
- Fad'l bin Mohamed
- Shah Hakim @ Shahzanim bin Zain

Subsequently on 18 July 2006, Gregory Jerome Gerald Fernandes resigned from the Board.

RE-ELECTION OF DIRECTORS

During the year under review, the Nomination Committee comprised a majority of Independent Non-Executive Directors as highlighted in the table on page 27 of this Annual Report. The Nomination Committee meets as and when required, and at least once during the financial year as stipulated in their terms of reference.

In accordance with the Articles of Association, one-third of the Directors shall retire from office and be eligible for re-election on a rotational basis each year at the Annual General Meeting ("AGM"). In addition, all Directors who were appointed by the Board are subject to re-election by shareholders at the first opportunity after their appointment. All Directors are required to retire from office at least once in three (3) years but shall be eligible for re-election.

DIRECTORS' CONTINUING EDUCATION

All members of the Board have attended the Mandatory Accreditation Programme as required under the Listing Requirements of Bursa Malaysia Securities Berhad.

During the financial year ended 31 December 2006, all the Directors attended various training programmes, conferences, seminars and courses organised by the relevant regulatory authorities and professional bodies on areas relevant to the Group's business, directors' roles, responsibilities, effectiveness and corporate governance issues.

COMMITTEES OF THE BOARD

The Board delegates certain responsibilities to Committees, namely the Audit, Risk Management, Nomination, Remuneration and Options Committees. All committees are guided by their respective terms of references which specifically outline their objectives, duties and responsibilities.

- **Audit Committee**

  The Audit Committee has been established with the primary objective of assisting the Board to review the adequacy and integrity of the Company's internal control and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

  During the financial year under review, the Audit Committee consists of three (3) Independent Non-Executive Directors. There were five (5) Audit Committee meetings held during the year under review. On 18 July 2006, the Chairman of the Audit Committee, Gregory Jerome Gerald Fernandes, resigned from the Board and ceased to be Chairman of the Committee.

  The terms of reference for the Audit Committee is highlighted in the Audit Committee Report as set out on pages 34 to 36 of this Annual Report.

- **Risk Management Committee**

  The Risk Management Committee was established in January 2006 to provide assurance to the Board on the Company's risk profile. The Board has delegated to the Risk Management Committee the responsibility to oversee the risk management activities in the Company and ensure compliance with the Group's risk management strategy.

  During the financial year under review, the Risk Management Committee consists of three (3) Independent Non-Executive Directors as set out on page 27.

As of 5 February 2007, the Audit Committee and the Risk Management Committee were dissolved and the Audit and Risk Management Committee was formed.

The aggregate of remuneration paid to the Directors of the Company who served during the financial year, and the bands, are as tabulated below:

	Executive Director (RM'000)	Non-Executive Directors (RM'000)	Total (RM'000)
Salaries	–	–	–
Fees	–	175.8	175.8
Allowances	–	27.9	27.9
Bonuses	–	–	–
Estimated value of benefit-in-kind	–	–	–
Total	–	**203.7**	**203.7**

The aggregate remuneration above is broadly categorised into the following bands:

	Executive Director	Non-Executive Directors	Total
Up to RM50,000	–	4	4
RM50,001 to RM100,000	–	1	1
RM100,001 to RM200,000	–	–	–

Note:
The remuneration relates to services rendered for financial year ended 31 December 2006. The fees for financial year 2006 are subject to shareholders' approval at the 23rd Annual General Meeting.

- **Options Committee**

  The Options Committee was established in January 2006 with authority delegated by the Board to administer the Company's Employees' Share Option Scheme ("ESOS") in accordance with the By-Laws.

  The current Options Committee consists of a majority of Independent Non-Executive Directors as set out on page 27. The Options Committee shall meet as and when required, and at least once during the financial year as stipulated in their terms of reference.

II. DIRECTORS' REMUNERATION

The Remuneration Committee is responsible for carrying out a review of the overall remuneration policy of the Directors and Senior Management Officers and recommendations are submitted to the Board for approval.

The Remuneration Committee, which comprises a majority of Independent Non-Executive Directors, meets as and when required, and at least once every financial year. There was one (1) Remuneration Committee meeting held during the year under review.

The Non-Executive Directors' remuneration is based on standard agreed fees, in addition to allowances for attendance at Board and Board Committee meetings. The Directors are also entitled to options under the Group's Employees' Share Option Scheme.

III. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board is committed to ensuring high quality, relevant information is made available to the shareholders and investors in a timely manner to keep them abreast of all material business matters affecting the Company.

Moving forward, the Directors recognise the importance of an effective and efficient mode of communication with shareholders and investors. Regulatory Announcements, Annual Reports, Quarterly Financial Results and other relevant information are accessible via the internet and/or the Scomi Group Bhd's website at www.scomigroup.com.my. In addition, any person wishing to receive email alerts or make any request for documents is able to do so via submission to the website.

The AGM serves as a platform for shareholders to have direct access to the Board and shareholders are given the opportunity to actively participate in the proposed resolutions. At the AGM, the Chairman of the Board addresses the shareholders and provides a review of the Company's operations for the financial year and the Company's prospects for the next financial year.

IV. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is committed in providing and presenting a balanced and meaningful assessment of the Company's financial performance and prospects at the end of each financial year, primarily through annual financial statements and quarterly announcements of results to the shareholders. The Board is assisted by the Audit Committee (going forward, the Audit and Risk Management Committee) to oversee the Company's financial reporting processes and the quality of its financial reporting.

The Statement of Responsibility by Directors in respect of the preparation of the annual audited financial statements for the financial year under review is set out on page 39 of this Annual Report.

Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. This principle is further elaborated under the Statement of Internal Control as set out on pages 32 to 33 of this Annual Report.

Relationship with Auditors

The Company maintains a formal and transparent relationship with the external and internal auditors. The Audit Committee (going forward, the Audit and Risk Management Committee) also meets with external auditors to further discuss the Company's audit plans, audit findings, financial statements as well as to seek their professional advice on other related matters. At least once a year, the Audit Committee (going forward, the Audit and Risk Management Committee) meets the external auditors without the presence of Executive Directors or Management.

The roles of the Audit Committee in relation to both the internal and external auditors are described in the Audit and Risk Management Committee Report as set out on pages 34 to 36 of this Annual Report.

INTERNAL CONTROL STATEMENT

INTRODUCTION

Paragraph 15.27 (b) of the Listing Requirements of Bursa Malaysia Securities Berhad requires the Board of Directors of a listed entity to include a statement on the state of internal control in the Annual Report. The Malaysian Code on Corporate Governance provides that listed entities should maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets.

The Board acknowledges its responsibility for ensuring the existence of sound and effective internal control and risk management practices. However it should be noted that any system of internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

INTERNAL CONTROL FRAMEWORK

The Board has delegated to the management team of the Group, the responsibility of managing the day-to-day operations of the Group and the implementation of the system of internal control. The Board has also assigned to the Audit Committee (and going forward, the Audit and Risk Management Committee) the responsibility to review and monitor the effectiveness of the Group's system of internal control.

The internal audit function of the Group is outsourced to its holding company, Scomi Group Bhd, which conducts periodic reviews of the effectiveness of controls in key business processes of the Group. This internal audit function, which adopts a risk-based approach, reports directly to the Audit Committee (and going forward, the Audit and Risk Management Committee) of Scomi Engineering Bhd.

Key features of the internal control framework of the Group are as follows;

- Clearly defined and distinguished authorities and delegation of duties and responsibilities between the Executive Director and senior management;
- Policies, Procedures and Work Instructions to guide operational processes;
- Regular and comprehensive information provided to Directors, covering key business, operations and financial performance issues;
- Close monitoring of monthly results against budget and forecasts;
- Compliance and progress audits undertaken and reported to the Audit Committee (and going forward, the Audit and Risk Management Committee) on a quarterly basis;

- Regular audits by the premium thread licensors for the Group's Machine Shop operations;
- ISO accreditation for the Transportation Engineering operations and certifications by the American Petroleum Institute for the Group's Machine Shop operations in respect of Quality Management Systems;
- Appointment of the Group QHSE Manager to provide group-wide support in the areas of quality, health, safety and environment; and
- Material Safety Data Sheet ("MSDS") for risk assessment and management mechanism to achieve "Zero" Accident and an Incident-free environment.

During the financial year under review, the Group had also reviewed the risk profile of its key business units and developed management action plans to manage significant risk exposures.

GOING FORWARD

The Board continues to take appropriate steps to strengthen the transparency and efficiency of its operations. It is the intention of the Board and its management to undertake a comprehensive review of the governance and internal control framework. Emphasis will be given by the Board to enhance and refine the risk management framework within the Group for purposes of ensuring that a culture of ownership, management and accountability for risk exists throughout the group. This will be supported by an assessment, independent of operations, on the adequacy and integrity of the controls by internal audit engagements undertaken by Scomi Group Bhd's internal audit function. Other initiatives deemed necessary will be considered from time to time in order to ensure that the control environment remains reasonably secure.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

The Board of Directors ("the Board") of Scomi Engineering Bhd ("the Company" or "SEB") is pleased to present the Report on the Audit and Risk Management Committee for the financial year under review.

On 5 February 2007, the Audit Committee was dissolved and the Audit and Risk Management Committee was formed following the Board's decision to merge the functions of the Audit Committee and the Risk Management Committee. The Board of Directors of the Company is of the opinion that the expanded role of the Audit and Risk Management Committee will provide the members of the Committee with a holistic view of the risks and controls of the Company and its subsidiary companies.

For the purpose of this report, we shall make reference to the Audit Committee as the activities during the financial year under review were carried out by the former Audit Committee.

TERMS OF REFERENCE

The Audit Committee was established on 15th April 1996 to act as a Committee of the Board to fulfil its fiduciary responsibilities relating primarily to business ethics, policies and practices and financial management and controls.

COMPOSITION

The composition of the Committee is as follows:

- no less than three members;
- majority of Committee members are independent directors as defined under the Bursa Malaysia Securities Berhad ("BMSB") Listing Requirements;
- at least one Committee member is a member of the Malaysian Institute of Accountants.

The Chairman of the Committee is an independent director as defined under the Bursa Malaysia Securities Berhad's Listing Requirements.

AUTHORITY

The Committee is authorised by the Board to investigate any matter within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any requests made by the Committee.

The Committee has unlimited access to all information and documents relevant to its activities, to the internal and external auditors and senior management of the Company and its subsidiaries.

The Committee can obtain external legal or other independent professional advice if it considers this necessary.

The Secretary to the Audit Committee is the Company Secretary. The Chairman reports to the Board.

FUNCTIONS

- To review with the external auditors on:
  - the audit plan;
  - their evaluation of the system of internal control;
  - their audit reports and ensuring that their recommendations regarding major weaknesses of the management are implemented;
  - the annual financial statements, together with the Chief Financial Officer and recommend acceptance to the Board;
  - audit fees;
- To consider the need for internal audit, and, if required, to review with the internal auditors:
  - the Group's internal control procedures, including organisational and operational control;
  - the internal auditor's scope of work and functions;
  - the results of internal audit procedures and relevant reports;
  - the Group's accounting policies;
  - any related party transactions that may arise within the Company or Group;
  - regular management information and ensuring that audit recommendations regarding major weaknesses of management are implemented;
- To recommend to the Board the appointment of the external auditors;
- To monitor related party transactions entered into by the Company and the Group and to ensure that the Directors report such transactions annually to the shareholders via the annual report;
- To evaluate the Company's exposure to fraud;
- To take an active interest in ethical considerations regarding the Company's and Group's policies and practices;
- To monitor the standard of corporate conduct in areas such as arm's-length dealings and likely conflicts of interest;
- To require reports from management, internal auditors and external auditors on any significant proposed regulatory accounting or reporting issues to assess the potential impact upon the Company and the Group's financial reporting process;
- To identify and direct any special projects or investigations deemed necessary;
- Any other functions as may be agreed to by the Audit Committee and the Board of Directors.

QUORUM

There was full attendance at each of the meetings of the Committee and a majority of the members present were independent directors.

MEMBERSHIP AND MEETINGS

The members of the Audit Committee during the financial year under review comprised the following Board Members:

NAME	AUDIT COMMITTEE	DESIGNATION
Gregory Jerome Gerald Fernandes (resigned from the Board on 18 July 2006)	Chairman	Independent Non-Executive Director
Edlin bin Ghazaly	Member	Independent Non-Executive Director
Fad'l bin Mohamed	Member	Independent Non-Executive Director

During the financial year under review, the Audit Committee convened five (5) meetings and all five (5) meetings had full attendance by the Audit Committee members. Meetings were held on 20 February 2006, 4 April 2006, 23 May 2006, 22 August 2006 and 20 November 2006 respectively.

With the formation of the Audit and Risk Management Committee on 5 February 2007, the members are as follows:

NAME	AUDIT & RISK MANAGEMENT COMMITTEE	DESIGNATION
Dato' Nordin bin Baharuddin	Chairman	Independent Non-Executive Director
Dato' Abdul Rahim bin Abu Bakar	Member	Independent Non-Executive Director
Edlin bin Ghazaly	Member	Independent Non-Executive Director
Fad'l bin Mohamed	Member	Independent Non-Executive Director

ACTIVITIES FOR THE YEAR

In line with the terms of reference of the Audit Committee, the following activities were carried out by the Audit Committee for the financial year under review in accordance with its functions and duties:

1. Reviewed with the external auditor on their audit plan, results of their audit and their audit report;
2. Reviewed the financial statements and compliance issues in the preparation of the financial statements;
3. Reviewed the quarterly results of the Group and Company;
4. Reviewed the extent of the internal audit processes; and
5. Reviewed and verified that the allocation of options pursuant to the Company's ESOS scheme is compliant with the criteria for allocation of options.

INTERNAL AUDIT FUNCTION

The Committee acknowledges the need for an effective system of internal control covering all aspects of activities including the mapping and management of risk which the Group may be exposed to.

The Committee also recognises the need to have these processes and controls audited internally to ensure the adequacy and integrity of the Group's internal control system. The internal audit function of the Group is outsourced to its holding company, Scomi Group Bhd.

During the financial year under review, the Internal Audit function carried out the following activities:

1. Reviewed and agreed with the Audit Committee the audit plan, risk-based audit strategy, scope of work and resource requirements;
2. Ascertained extent of compliance with established policies, procedures and statutory requirements;
3. Recommended improvements to the existing system of internal control;
4. Carried out investigations and special reviews requested by management; and
5. Identified opportunities to improve the operations and processes in the Group and the Company.

ADDITIONAL INFORMATION

SANCTIONS AND/OR PENALTIES

For the financial year under review, there were no sanctions and/or penalties imposed on the company, its Directors or Management.

Material Contracts Involving Directors' and Major Shareholders' Interest

Other than contracts entered into and disclosed as Related Party Transactions in Note 34 to the Financial Statements, there are no other material contracts, including contracts relating to loans (not being in the ordinary course of business) of the Company, involving Directors' and major shareholders' interests, either still subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year.

Disclosure of Related Party Transactions

In relation to Related Party Transactions of a revenue or trading nature which are necessary for the Group's day-to-day operations and transacted in the ordinary course of business with related parties, the Company will make an immediate notification or announcement to Bursa Malaysia where appropriate and required.

Significant Related Party Transactions are disclosed in Note 34 to the Financial Statements.

Disclosure of Recurrent Related Party Transactions

The following is the breakdown of the aggregate value of the transactions conducted pursuant to the Shareholders' Mandate during the financial year where:

(i) the consideration, value of the assets, capital outlay or cost of the aggregated transactions is equal to or exceeds RM1 million; or
(ii) any one of the percentage ratios of such aggregated transactions is equal to or exceeds 1%;

whichever is the lower.

Related Party	Nature of Transactions	Aggregate value during Financial Year ended 31 December 2006 (RM)	Interested Director, Major Shareholder and person connected
Scomi Group Bhd	Provision of administrative services: – Human Resource – Administration of Employee Share Option Scheme – Legal and Company Secretarial – Corporate Communications and Publication – Investor Relations – Corporate Finance – Information Technology and Treasury	2,000,000.00	**Interested Substantial Shareholders:** Dato' Kamaluddin Abdullah, Shah Hakim Zain, Kaspadu Sdn Bhd and Onstream Marine Sdn Bhd **Interested Directors:** Shah Hakim Zain

The Shareholders mandate for the above transaction shall not be subject to annual renewal.

Director's Conflict of Interest

The Directors do not have any existing conflicts of interest or any interest in any business arrangement involving Scomi Engineering Bhd and its subsidiaries.

Status of Utilisation of Private Placement Proceeds

Renounceable Rights Issue of 57,552,000 new ordinary shares of RM1.00 each in Scomi Engineering Bhd ("SEB") at an issue price of RM1.20 per rights share on the basis of three (3) rights share for every one (1) existing SEB share held ("Rights Issue").

On 20 January 2006, the Company 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 Rights Issue. The cash proceeds from this issue amounted to RM69,062,400.

On 26 January 2006, the shares were listed and quoted on the Second Board of Bursa Malaysia Securities Berhad.

The proceeds were fully utilised by the 4th quarter of 2006 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	(49,779)
Balance as at 31st December 2006	0

Variation in Results

There were no significant variations between the audited results for the financial year and the unaudited results previously announced.

Non Audit Fees

Non Audit Fees paid during the financial year under review ended 31 December 2006 is disclosed in Note 10 to the Financial Statements.

DIRECTORS' RESPONSIBILITY
STATEMENT

The Directors are required by the Companies Act, 1965 ("the Act") to lay before the Company ("Scomi Engineering Bhd") at its Annual General Meeting, the financial statements (which include the consolidated balance sheet and the consolidated income statement) of Scomi Engineering Bhd and its subsidiaries ("the Group") for each financial year, made out in accordance with the applicable approved accounting standards and the provisions of the Act.

The financial statements of the Company and the Group for the financial year ended 31 December 2006 are set out on pages 40 to 118 of this annual report.

It is the responsibility of the Directors to take reasonable steps to ensure that the consolidated balance sheet gives a true and fair view of the state of affairs of the Group at the end of the financial year to which it relates and the consolidated income statement gives a true and fair view of the results of the Group for the financial year to which it relates and to ensure that the financial statements are made out in accordance with applicable approved accounting standards and the provisions of the Act.

The Directors have relied on the system of internal control of the Group to provide them with reasonable grounds to believe that the accounting and other records maintained by the Group sufficiently explain the transactions and financial position of the Group and enable a true and fair consolidated balance sheet and a true and fair consolidated income statement for the Group and the documents required by the Act to be attached thereto to be prepared for the financial year to which these financial statements relate.

The Directors have the responsibility of ensuring that the Group keeps proper accounting and other records which accurately disclose the financial position of the Group and which enable them to ensure that the financial statements comply with the Act.

FINANCIAL
STATEMENTS

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and the provision of management services to subsidiaries. The principal activities of the Group comprise the provision of machine shop services for tools and equipment used in the petroleum industry, fleet management services and transport engineering business.

There were no significant changes in the nature of these activities during the financial year, other than the acquisition of a subsidiary company, MTrans Transportation Systems Sdn Bhd, and its wholly-owned subsidiaries which are involved in the manufacturing, fabrication and assembly of commercial coaches, truck vehicle bodies and monorail trains and other related services.

CHANGE OF NAME

On 9 January 2006, the Company changed its name from Bell & Order Berhad to Scomi Engineering Bhd.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	30,208	11,011

DIVIDEND

No dividend has been paid, declared or proposed since the end of the Company's previous financial year.

The Directors now recommend the payment of a final tax exempt dividend of 3 sen per share, in respect of the financial year ended 31 December 2006, amounting to approximately RM8,118,827, which is subject to approval of members at the forthcoming Annual General Meeting of the Company.

RESERVES AND PROVISIONS

Material transfers to or from reserves or provisions during the financial year are as disclosed in the financial statements.

ISSUE OF SHARES

During the financial year, the issued and paid-up share capital of the Company was increased from RM211,751,567, comprising 211,751,567 ordinary shares of RM1.00 each, to RM270,627,567, comprising 270,627,567 ordinary shares of RM1.00 each by way of:

(i) a renounceable rights issue of 57,552,000 shares of RM1.00 each in the Company at an issue price of RM1.20 per share for cash on the basis of three (3) rights issue for every one ordinary share held, the proceeds of which were utilised for settlement pursuant to the Composite Scheme of Arrangement (as disclosed in Note 37(a) to the financial statements), expenses in relation to the restructuring exercise undertaken in 2005 and also working capital for business expansion purposes.

(ii) the issue of 1,324,000 new ordinary shares of RM1.00 each pursuant to the exercise of options granted under the ESOS at an option price of RM1.00 per share for cash.

The new ordinary shares issued during the financial year rank parri passu in all respects with the existing ordinary shares of the Company.

<u>Employees' Share Option Scheme</u>

The Company implemented an Employees' Share Option Scheme ("ESOS") which came into effect on 26 January 2006 for a period of 10 years. The ESOS is governed by the By-Laws which were approved by the shareholders on 10 November 2005.

Details of the ESOS are set out in Note 30(b) to the financial statements.

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose names of option holders who were granted less than 2,000,000 options under the ESOS during the financial year.

Details of options granted under the ESOS over the ordinary shares of RM1.00 each in the Company, which are in respect of 2,000,000 options and above are as follows:

		Options over ordinary shares			
Name of options holders	Exercise price RM	At 1.1.2006 '000	Granted '000	Exercised '000	At 31.12.2006 '000
Shah Hakim @ Shahzanim bin Zain	1.00	–	2,000	–	2,000
Mansor Tahir	1.00	–	2,700	–	2,700
Hilmy Zaini Zainal	1.00	–	3,800	–	3,800
Rohaida Ali Badaruddin	1.00	–	2,400	–	2,400
Zubaidi Harun	1.00	–	2,100	–	2,100
Tan Choon Hong	1.00	–	2,400	(240)	2,160

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 37 to the financial statements.

SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Significant events subsequent to the balance sheet date are disclosed in Note 38 to the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Datuk Zainun Aishah binti Ahmad	
Dato' Abdul Rahim bin Abu Bakar	
Edlin bin Ghazaly	
Fad'l bin Mohamed	
Shah Hakim @ Shahzanim bin Zain	
Dato' Nordin bin Baharuddin	(appointed on 18 January 2007)
Gregory Jerome Gerald Fernandes	(resigned on 18 July 2006)

DIRECTORS' INTERESTS IN SHARES

According to the register of Directors' shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and options over shares in the Company and its related corporations during the financial year are as follows:

	Number of ordinary shares of RM0.10 each in the ultimate holding company				
	At 1.1.2006 '000	**Bought '000**	**Sold '000**	**Exercise of share options '000**	**At 31.12.2006 '000**
Scomi Group Bhd					
Direct interest:					
Shah Hakim @ Shahzanim bin Zain	960	–	(600)	* 1,729	2,089
# Indirect interest:					
Shah Hakim @ Shahzanim bin Zain	345,337	–	–	–	345,337

DIRECTORS' INTERESTS IN SHARES (CONT'D.)

	Number of ordinary shares of RM1.00 each in the Company				
	At 1.1.2006 '000	Bought '000	Sold '000	Exercise of share options '000	At 31.12.2006 '000
<u>Direct interest:</u>					
Shah Hakim @ Shahzanim bin Zain	–	100	–	–	100
<u># Indirect interest:</u>					
Shah Hakim @ Shahzanim bin Zain	192,568	–	–	–	192,568

\# Deemed interested by virtue of Section 6A(4) of the Companies Act, 1965 through his legal and/or beneficial shareholding in Kaspadu Sdn Bhd, which holds an interest in Scomi Group Bhd, which in turn is a substantial shareholder of Scomi Engineering Bhd.

* Share options exercised on 28 December 2005 which were allotted on 6 January 2006.

	Number of options over ordinary shares of RM1.00 each in the Company				
	Exercise price RM/share	At 1.1.2006 '000	Granted '000	Exercised '000	At 31.12.2006 '000
Datuk Zainun Aishah binti Ahmad	1.00	–	1,000	–	1,000
Dato' Abdul Rahim bin Abu Bakar	1.00	–	600	–	600
Edlin bin Ghazaly	1.00	–	600	–	600
Fad'l bin Mohamed	1.00	–	600	–	600
Shah Hakim @ Shahzanim bin Zain	1.00	–	2,000	–	2,000

	+ Number of options over ordinary shares of RM0.10 each in the ultimate holding company				
	Exercise price RM/share	At 1.1.2006 '000	Granted '000	Exercised '000	At 31.12.2006 '000
Scomi Group Bhd					
<u>Direct interest:</u>					
Shah Hakim @ Shahzanim bin Zain	0.17	1,357	–	–	1,357
	1.12	6,000	–	–	6,000

\+ The options held over ordinary shares in Scomi Group Bhd were granted pursuant to the Scomi Group Bhd's Employees' Share Option Scheme, which was implemented on 28 April 2003.

DIRECTORS' INTERESTS IN SHARES (CONT'D.)

By virtue of his interests in the shares and options in the ultimate holding company as disclosed above, Shah Hakim @ Shahzanim bin Zain is deemed to have an interest in the shares of all the ultimate holding company's subsidiary companies.

Other than as disclosed above, according to the register of Directors' shareholdings, none of the Directors in office at the end of the financial year held any interest in shares and options over shares in and debentures of the Company, or interest in shares, options over shares in and debentures of its related corporations during the financial year.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, except for the options over shares granted by the ultimate holding company, Scomi Group Bhd and the Company, to eligible employees including certain Directors of the Company pursuant to the Scomi Group Bhd's and the Company's respective Employees' Share Option Schemes.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration as disclosed in Note 11 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except that certain Directors received remuneration as directors of the ultimate holding company.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONT'D.)

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve (12) months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet its obligations when they fall due.

At the date of this report, there does not exist:

(a) any charge on the assets of the Group or Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group or Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

(a) the results of the operations of the Group and Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(b) other than as disclosed in Note 38 to the financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to substantially affect the results of the operations of the Group or Company for the financial year in which this report is made.

ULTIMATE HOLDING COMPANY

The Directors regard Scomi Group Bhd, a public limited liability company incorporated and domiciled in Malaysia, as the ultimate holding company.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 19 April 2007.

DATUK ZAINUN AISHAH BINTI AHMAD
Director

SHAH HAKIM @ SHAHZANIM BIN ZAIN
Director

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
CONTINUING OPERATIONS					
Revenue	7	**323,940**	–	**16,000**	–
Cost of sales	8	**(243,025)**	–	**–**	–
Gross profit		**80,915**	–	**16,000**	–
Other operating income		**2,347**	–	**1,492**	–
Administrative expenses		**(21,050)**	–	**(6,294)**	–
Selling and distribution expenses		**(9,816)**	–	**–**	–
Other operating expenses		**(7,111)**	–	**(187)**	–
Finance costs	12	**(4,189)**	–	**–**	–
Profit before taxation	9	**41,096**	–	**11,011**	–
Tax expense	13	**(10,888)**	–	**–**	–
Profit for the financial year from continuing operations		**30,208**	–	**11,011**	–
Profit for the financial year from discontinued operations	5	**–**	16,701	**–**	8,417
Profit for the financial year		**30,208**	16,701	**11,011**	8,417
Attributable to:					
Equity holders of the Company		**28,267**	16,701	**11,011**	8,417
Minority interest		**1,941**	–	**–**	–
Profit for the financial year		**30,208**	16,701	**11,011**	8,417
Earnings per share (sen) attributable to ordinary equity holders of the Company:					
– Basic	14	**10.59**	76.53		
– Diluted	14	**10.32**	76.53		

The notes set out in pages 55 to 116 form an integral part of, and should be read in conjunction with, these financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	16	**89,712**	47,836	**–**	–
Investments in subsidiaries	17	**–**	–	**316,365**	298,538
Other investments	18	**627**	542	**–**	–
Intangible assets	19	**218,139**	209,487	**–**	–
Deferred tax assets	29	**410**	–	**–**	–
		308,888	257,865	**316,365**	298,538
CURRENT ASSETS					
Other investments	18	**7,750**	–	**7,750**	–
Inventories	20	**97,212**	42,995	**–**	–
Receivables, deposits and prepayments	21	**145,838**	53,053	**8,817**	141
Amounts due from subsidiaries	17	**–**	–	**32,685**	–
Amounts due from related corporations	22	**27,288**	124,051	**27,588**	–
Tax recoverable		**1,428**	2,205	**–**	–
Dividend receivable		**–**	–	**12,000**	–
Deposits with licensed banks	23	**7,300**	991	**6,626**	–
Cash and bank balances	23	**28,991**	19,519	**1,797**	10
		315,807	242,814	**97,263**	151
LESS: CURRENT LIABILITIES					
Payables	24	**145,495**	64,434	**1,600**	18,525
Finance lease and hire purchase liabilities	25	**4,289**	3,489	**–**	–
Amounts due to ultimate holding company	26	**3,146**	898	**3,232**	898
Amounts due to subsidiaries	17	**–**	–	**60,481**	13,547
Amounts due to related corporations	22	**65**	96,775	**1**	–
Amounts due to Directors	27	**–**	75	**–**	75
Borrowings (interest bearing)	28				
– Bank overdrafts		**4,977**	4,058	**–**	–
– Others		**45,134**	27,206	**–**	–
Current tax liabilities		**20,613**	6,583	**–**	–
		223,719	203,518	**65,314**	33,045
NET CURRENT ASSETS/(LIABILITIES)		**92,088**	39,296	**31,949**	(32,894)

		Group		Company	
	Note	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
LESS: NON-CURRENT LIABILITIES					
Finance lease and hire purchase liabilities	25	**10,660**	10,862	**–**	–
Borrowings (interest bearing)	28	**11,723**	19,539	**–**	–
Deferred tax liabilities	29	**3,497**	1,116	**–**	–
		25,880	31,517	**–**	–
		375,096	265,644	**348,314**	265,644
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Share capital	30	**270,627**	211,751	**270,627**	211,751
Share premium	31	**78,598**	68,516	**78,598**	68,516
Merger relief reserve		**21,260**	21,260	**21,260**	21,260
Share option reserve		**2,701**	–	**2,701**	–
Capital contribution reserve		**30**	–	**–**	–
Currency exchange reserve		**(4,908)**	–	**–**	–
Accumulated losses		**(7,616)**	(35,883)	**(24,872)**	(35,883)
		360,692	265,644	**348,314**	265,644
Minority interest		**14,404**	–	**–**	–
Total equity		**375,096**	265,644	**348,314**	265,644

The notes set out in pages 55 to 116 form an integral part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

		Attributable to equity holders of the Company								
	Note	Share capital RM'000	Share premium RM'000	Merger relief reserve RM'000	Currency exchange reserve RM'000	Share option and capital contribution reserves* RM'000	Accumulated losses RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
At 1 January 2006		211,751	68,516	21,260	–	–	(35,883)	265,644	–	265,644
Issue of shares										
– rights issue	30(a), 31	57,552	11,510	–	–	–	–	69,062	–	69,062
– share issue costs	31	–	(1,727)	–	–	–	–	(1,727)	–	(1,727)
Acquisition of subsidiaries	4(a)	–	–	–	–	–	–	–	12,463	12,463
Employees' Share Option Scheme ("ESOS")										
– options granted	30(b)	–	–	–	–	3,000	–	3,000	–	3,000
– shares issued	30(a), 31	1,324	299	–	–	(299)	–	1,324	–	1,324
Options granted on ultimate holding company's ESOS		–	–	–	–	30	–	30	–	30
Net loss not recognised in income statement - currency translation differences		–	–	–	(4,908)	–	–	(4,908)	–	(4,908)
Profit for the financial year		–	–	–	–	–	28,267	28,267	1,941	30,208
At 31 December 2006		270,627	78,598	21,260	(4,908)	2,731	(7,616)	360,692	14,404	375,096

* Capital contribution reserve of RM30,000 (2005: Nil) is in respect of the issuance of the ultimate holding company, Scomi Group Bhd's Employees' Share Option Scheme to the Group's employees.

		Attributable to equity holders of the Company								
	Note	Share capital RM'000	Share premium RM'000	Merger relief reserve RM'000	Currency exchange reserve RM'000	Share option and capital contribution reserves RM'000	Accumulated losses RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
At 1 January 2005		19,184	65	–	2,271	–	(52,584)	(31,064)	–	(31,064)
Issue of shares										
– acquisition of subsidiaries	30(a), 31	192,567	71,173	21,260	–	–	–	285,000	–	285,000
– share issue costs	31	–	(2,722)	–	–	–	–	(2,722)	–	(2,722)
Net loss not recognised in income statement - currency translation differences of a disposed subsidiary		–	–	–	(2,271)	–	–	(2,271)	–	(2,271)
Profit for the financial year		–	–	–	–	–	16,701	16,701	–	16,701
At 31 December 2005		**211,751**	**68,516**	**21,260**	**–**	**–**	**(35,883)**	**265,644**	**–**	**265,644**

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

			Non-distributable				
	Note	Share capital RM'000	Share premium RM'000	Merger relief reserve RM'000	Share option reserve RM'000	Accumulated losses RM'000	Total RM'000
At 1 January 2006		**211,751**	**68,516**	**21,260**	**–**	**(35,883)**	**265,644**
Issue of shares							
– rights issue	30(a), 31	**57,552**	**11,510**	**–**	**–**	**–**	**69,062**
– share issue costs	31	**–**	**(1,727)**	**–**	**–**	**–**	**(1,727)**
ESOS							
– options granted	30(b)	**–**	**–**	**–**	**3,000**	**–**	**3,000**
– shares issued	30(a), 31	**1,324**	**299**	**–**	**(299)**	**–**	**1,324**
Profit for the financial year		**–**	**–**	**–**	**–**	**11,011**	**11,011**
At 31 December 2006		**270,627**	**78,598**	**21,260**	**2,701**	**(24,872)**	**348,314**
At 1 January 2005		19,184	65	–	–	(44,300)	(25,051)
Issue of shares							
– acquisition of subsidiaries	30(a), 31	192,567	71,173	21,260	–	–	285,000
– share issue costs	31	–	(2,722)	–	–	–	(2,722)
Profit for the financial year		–	–	–	–	8,417	8,417
At 31 December 2005		211,751	68,516	21,260	–	(35,883)	265,644

The notes set out in pages 55 to 116 form an integral part of, and should be read in conjunction with, these financial statements.

		Group		Company	
	Note	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**41,096**	16,701	**11,011**	8,417
Adjustments for:					
Unrealised exchange (gains)/losses		**(473)**	–	**187**	–
Property, plant and equipment					
– depreciation		**8,562**	124	**–**	37
– gain on disposal		**(222)**	(16)	**–**	(16)
– written off		**2**	160	**–**	–
Inventories written off		**172**	265	**–**	–
Allowance for doubtful debts		**1,005**	–	**–**	–
Bad debts written off		**–**	946	**–**	129
Interest income		**(1,522)**	–	**(1,492)**	–
Share option/capital contribution expenses		**3,030**	–	**1,300**	–
Composite Scheme of Arrangement:					
– gain on disposal of subsidiaries		**–**	(11,186)	**–**	–
– waiver of debts		**–**	(14,194)	**–**	(14,194)
– loss on disposal of assets		**–**	2,744	**–**	2,744
Interest expense		**4,189**	1,443	**–**	1,042
Dividend income		**–**	–	**(12,000)**	–
Operating profit/(loss) before working capital changes		**55,839**	(3,013)	**(994)**	(1,841)
Movements in working capital					
Inventories		**(37,629)**	280	**–**	15
Receivables, deposits and prepayments		**(58,975)**	2,173	**(308)**	1,158
Trade and other payables		**36,797**	13,259	**(16,999)**	(13,835)
Subsidiary companies		**–**	–	**16,041**	–
Related companies		**1,265**	898	**(28,354)**	14,458
Ultimate holding company		**2,248**	–	**2,334**	–
Cash flows (used in)/from operations		**(455)**	13,597	**(28,280)**	(45)
(Tax paid) / Tax refund		**(7,968)**	90	**–**	90
Interest received		**310**	–	**280**	–
Net cash flow (used in) / from operating activities		**(8,113)**	13,687	**(28,000)**	45

CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONT'D.)

		Group		Company	
	Note	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	16	(8,172)	–	–	–
Proceeds from disposal of property, plant and equipment		775	16	–	16
Acquisition of subsidiaries	4(a)	(30,483)	2,904	(30,722)	–
Disposal of subsidiaries	4(b)	–	832	–	–
Investment in money market fund		(7,750)	–	(7,750)	–
Development expenditure incurred	19	(1,576)	–	–	–
Profit guarantee monies received	34	6,226	–	6,226	
Net cash flow (used in)/from investing activities		(40,980)	3,752	(32,246)	16
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of shares					
– rights issue	30(a)	69,062	–	69,062	–
– exercise of ESOS	30(b)	1,324	–	1,324	–
Share issue expenses	31	(1,727)	–	(1,727)	–
Repayment of term loans		(7,821)	–	–	–
Hire purchase and lease principal repayments		(4,071)	–	–	–
Interest expense		(4,189)	–	–	–
Net repayment of bankers' acceptances		(4,908)	–	–	–
Net trust receipts utilised		18,755	–	–	–
Short-term deposits released/(pledged) as securities for bank facilities		503	(991)	–	–
Net cash flow from/(used in) financing activities		66,928	(991)	68,659	–
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		17,835	16,448	8,413	61
CURRENCY TRANSLATION DIFFERENCES		(2,470)	–	–	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		15,461	(987)	10	(51)
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	23	30,826	15,461	8,423	10

The notes set out in pages 55 to 116 form an integral part of, and should be read in conjunction with, these financial statements.

1 GENERAL INFORMATION

The principal activities of the Company are investment holding and the provision of management services to subsidiaries. The principal activities of the Group comprise the provision of machine shop services for tools and equipment used in the petroleum industry, fleet management services and transport engineering business.

There were no significant changes in the nature of these activities during the financial year, other than the acquisition of a subsidiary company, MTrans Transportation Systems Sdn Bhd, and its wholly-owned subsidiaries which are involved in the manufacturing, fabrication and assembly of commercial coaches, truck vehicles bodies and monorail trains and other related services.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Second Board of Bursa Malaysia Securities Berhad.

The Directors regard Scomi Group Bhd, a public limited liability company incorporated and domiciled in Malaysia, as the ultimate holding company. Related companies in the financial statements refer to companies within the Scomi Group Bhd group of companies.

The registered office of the Company is located at Suite 5.03, 5th Floor, Wisma Chase Perdana, Off Jalan Semantan, 50490 Kuala Lumpur.

The address of the principal place of business of the Company is as follows:

Suite 3A.01, Level 3A
Wisma Chase Perdana
Off Jalan Semantan
50490 Kuala Lumpur

2 SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These policies have been applied consistently for all the financial years presented, unless stated otherwise.

2.1 Basis of preparation

The financial statements of the Group and Company have been prepared in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards, the Malaysian Accounting Standards Board (“MASB”) Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.

The financial statements have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

The preparation of financial statements in conformity with Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgment in the process of applying the Company’s accounting policies. Although these estimates and judgment are based on the Directors’ best knowledge of current events and actions, actual results may differ.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of preparation (cont'd.)

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

Adoption of new Financial Reporting Standards

The following new and revised Financial Reporting Standards ("FRSs"), applicable to the Group, have been adopted during the financial year:

- FRS 2 Share-based Payment
- FRS 3 Business Combinations
- FRS 5 Non-current Assets Held for Sale and Presentation of Discontinued Operations
- FRS 101 Presentation of Financial Statements
- FRS 102 Inventories
- FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 110 Events After the Balance Sheet Date
- FRS 116 Property, Plant and Equipment
- FRS 121 The Effect of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- FRS 132 Financial Instruments: Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets
- FRS 138 Intangible Assets

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations adopted by the Group require retrospective application other than:

- FRS 2 – retrospective application for all equity instruments granted after 31 December 2004 and not vested at 1 January 2006;
- FRS 3 – prospectively for business combinations for which the agreement date is on or after 1 January 2006;
- FRS 5 – prospectively for non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on/after 1 January 2006;
- FRS 116 – the exchange of property, plant and equipment is accounted at fair value prospectively;
- FRS 121– prospective accounting for goodwill and fair value adjustments as part of foreign operations.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of preparation (cont'd.)

Adoption of new Financial Reporting Standards (Cont'd.)

The adoption of the above FRSs did not result in significant changes to the Group's accounting policies other than the effects of the following FRSs as disclosed in Note 39 to the financial statements on restatement of comparative figures:

- FRS 3 Business Combination
- FRS 5 Non-current Assets Held for Sale and Presentation of Discontinued Operations

The Group has not early adopted the following FRSs which have been issued as these standards are not effective in the current financial year:

- FRS 117 Leases (effective for accounting periods beginning on or after 1 October 2006)
- FRS 124 Related Party Disclosures (effective for accounting periods beginning on or after 1 October 2006)
- FRS 139 Financial Instruments : Recognition and Measurement (effective date has yet to be determined)
- Amendments to FRS 119_{2004} Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective for accounting periods beginning on or after 1 January 2007). This amendment is not relevant to the Group and has no impact to the financial statements.

The Group has relied on the transitional provisions of FRS 117, FRS 124 and FRS 139 not to disclose the possible impact that the application of these standards will have on the Group and Company's financial statements in the period of initial application.

The standard that is not yet effective and also not relevant for the Group's operations is:

- FRS 6 Exploration for and Evaluation of Mineral Resources (effective for accounting periods beginning on or after 1 January 2007)

FRS 6 is not relevant to the Group's operations as the Group does not carry out any business in relation to exploration for and evaluation of mineral resources.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year.

Subsidiaries are those entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting. Under the purchase method of accounting, subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The cost of an acquisition is the amount of cash paid and the fair value at the date of acquisition of other purchase consideration given by the acquirer, together with directly attributable expenses of the acquisition (other than costs of issuing shares and other capital instruments).

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Basis of consolidation (cont'd.)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the subsidiary acquired, the difference is recognised directly in the income statement. See accounting policy Note 2.4(i) on goodwill on consolidation.

Intra-group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiaries to ensure consistency of accounting policies with those of the Group.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since that date.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

The gain or loss on disposal of a subsidiary which is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the consolidated income statement.

2.3 Investments

Investment in subsidiaries is shown at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 2.6 on impairment of assets.

Investments in other non-current investments are shown at cost and an allowance for diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the financial year in which the decline is identified.

Short term investments (within current assets) are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged / credited to the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries over the Group's share of the fair values of their identifiable net assets at the date of acquisition. Goodwill on acquisition of subsidiaries is included in the balance sheet as intangible assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. See accounting policy Note 2.6 on impairment of assets. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units or groups of cash generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. The Group allocates goodwill to its key business segments.

(ii) Research and development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(b) management intends to complete the intangible asset and use or sell it;
(c) there is an ability to use or sell the intangible asset;
(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditure that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over the useful life, not exceeding ten years.

Development assets are tested for impairment annually, in accordance with FRS 136. See accounting policy Note 2.6 on impairment of assets.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Property, plant and equipment

Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment comprises purchase costs, together with any incidental costs of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the period of the respective leases that range from 7 to 999 years. Depreciation of other property, plant and equipment is calculated on a straight line basis so as to write off the cost of each asset to its residual value over its estimated useful life. The principal annual depreciation rates used are as follows:

Freehold building	2%
Leasehold buildings	2 – $33^1/_3$%
Rental equipment	$12^1/_3$%
Furniture, fixtures and equipment	10 – $33^1/_3$%
Motor vehicles	15 – 20%
Plant and machinery	$8^1/_3$ – 20%
Monorail test track	$3^1/_3$%
Renovations	10%

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, the Group assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. See accounting policy Note 2.6 on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

2.6 Impairment of non-financial assets

Property, plant and equipment, intangible assets with a finite life and investments in subsidiaries are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested annually for impairment. Impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 Impairment of non-financial assets (cont'd.)

Impairment loss is charged to the income statement. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement. The increased carrying amount of the asset does not exceed the carrying amount that would have been determined (net of depreciation), had impairment losses not been recognised for the asset in prior financial years.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average or "first-in, first out" basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.8 Trade receivables

Trade receivables are carried at invoiced amount less allowance for doubtful debts. Allowance for doubtful debts is made for any debts considered to be doubtful of collection based on a review of outstanding amounts at balance sheet date. Bad debts are written off in the financial year in which they are identified.

2.9 Cash and cash equivalents

For purposes of the cash flow statements, cash and cash equivalents comprise cash in hand, bank balances, deposits held at call with banks excluding deposits which are pledged for banking facilities, and other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

2.10 Employee benefits

(i) Short-term employee benefits

Wages, salaries, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Post-employment benefits

<u>Defined contribution plan</u>

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior financial years.

Post-employment benefits include the Group's fixed monthly contributions into the nation's defined contribution plan, the Employees' Provident Fund ("EPF"). The Group's contributions to the EPF are charged to the income statement in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.10 Employee benefits (cont'd.)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan in the form of an Employees' Share Option Scheme ("ESOS"). The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement over the vesting periods of the grant with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transactions costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.11 Assets acquired under finance leases and hire purchase arrangements

<u>Finance leases and hire purchase arrangements</u>

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Property, plant and equipment acquired under finance lease and hire purchase agreements are included in property, plant and equipment. Finance leases and hire purchases are capitalised at inception at the lower of fair value of the asset acquired under finance lease and hire purchase arrangements, and the present value of the minimum lease payments. Each lease payment and hire purchase rental is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the period of the respective lease and hire purchase agreements.

Property, plant and equipment acquired under finance lease and hire purchase arrangements are depreciated over the shorter of the estimated useful lives of the assets and the term of the respective lease and hire purchase agreements.

<u>Operating leases</u>

Leases of assets where a significant portion of risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the lease period.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.12 Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

2.13 Share capital

(i) *Classification*

Ordinary shares with discretionary dividends are classified as equity.

(ii) *Share issue costs*

Incremental external costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(iii) *Dividends to shareholders of the Company*

Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. Proposed final dividends are accrued as liabilities only after approval by the shareholders.

2.14 Merger relief reserve

Merger relief reserve represents the excess over the nominal value of the shares issued as consideration in an acquisition of subsidiaries which meets the requirements of subsection (4) of Section 60 of the Companies Act, 1965.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.15 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

Construction contracts are recognised when incurred. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by using the stage of completion method. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract.

When the outcome of the construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Irrespective of whether the outcome of a construction contract can be estimated reliably, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the financial year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as amounts due from customers on construction contracts under receivables, deposits and prepayments (within current assets). Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amounts due to customers on construction contracts under payables (within current liabilities).

2.16 Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Revenue from rental of motor vehicles on a hire and drive basis is recognised upon services being rendered.

Revenue from construction contracts is recognised on the percentage of completion method by reference to the stage of completion of the contract work to date. (See Note 2.15 on construction contracts).

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

Dividend income is recognised when the Group's right to receive payment is established.

Management fee income is recognised on an accrual basis, based on services rendered.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.17 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.18 Borrowings

Borrowings are initially recognised 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 recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.19 Financial instruments

(i) *Description*

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) *Financial instruments recognised on the balance sheet*

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy note associated with each item.

(iii) *Fair value estimation for disclosure purposes*

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date.

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar instruments.

The carrying amounts of the financial assets (less any estimated credit adjustments) and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values.

2.20 Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that is subject to risk and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those components operating in other economic environments.

Segment revenue, expenses, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.21 Non-current assets (or disposal groups) classified as assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.22 Contingent liabilities and contingent assets

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under a business combinations, the contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

The Group recognises separately the contingent liabilities of the acquirees as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions.

Subsequent to the initial recognition, the Group measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of FRS 137_{2004} Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with FRS 118 Revenue.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have a material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters.

(a) Estimated impairment of goodwill

The Group tests goodwill for impairment annually in accordance with its accounting policy. More regular reviews are performed if events indicate that this is necessary.

The recoverable amounts of cash generating units ("CGUs") were determined based on the value in use calculations/fair value less costs to sell as appropriate. The calculations require the use of estimates as set out in Note 6 to the financial statements.

The Directors are of the opinion that any reasonably expected change in the key assumptions used to determine the recoverable amounts of the CGUs, would not result in any impairment of the goodwill allocated to the respective CGUs.

(b) Fair value of options granted under ESOS

The Groups recognises an expense for options granted under its ESOS, by reference to the fair value of the options granted. The calculations require the use of estimates as set out in Note 30(b) to the financial statements.

If the expected volatility of the Company's share price increases by 15% (for example 50% instead of 35%), there will be a further expense of RM1 million to be recognised.

Critical judgement in applying accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Group.

However, the Directors are of the opinion that there are no accounting policies that require subjective judgement in the current financial year.

4 SIGNIFICANT ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of subsidiaries

Financial year ended 31 December 2006

On 10 July 2006, the Company completed the acquisition of 13,260,000 ordinary shares of RM1.00 each in MTrans Transportation Systems Sdn Bhd ("MTrans"), representing 51% of the issued and paid-up share capital of MTrans for a purchase consideration of RM30 million. MTrans has two wholly-owned subsidiaries, MTrans Technology Berhad and MTrans Bus Sdn Bhd.

The vendor has provided a profit guarantee in relation to the consolidated profit after tax of the subsidiary company acquired for the 12 months period ended 30 April 2007.

Details of net assets acquired are as follows:

	2006	
	Acquiree's carrying value RM'000	**Fair value RM'000**
Property, plant and equipment (Note 16)	39,770	39,770
Intangible assets (Note 19)	286	2,786
Other investments	85	85
Inventories	17,773	17,773
Receivables, deposits and prepayments	35,179	35,179
Cash and bank balances	239	239
Payables (including contingent liabilities)	(44,981)	(49,061)
Borrowings	(6,893)	(6,893)
Current tax liabilities	(11,917)	(11,917)
Deferred tax liabilities (Note 29)	(1,826)	(2,526)
Net assets	27,715	25,435
Goodwill on consolidation (Note 19)		17,750
Minority interest in subsidiary company acquired		(12,463)
Cost of acquisition		* 30,722

* Includes incidental costs of RM722,000

4 SIGNIFICANT ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONT'D.)

(a) Acquisition of subsidiaries (cont'd.)

Details of cash flows arising from the acquisition are as follows:

	2006 RM'000
Purchase consideration settled in cash	30,722
Less: Cash and cash equivalents of subsidiary acquired	(239)
Cash outflow of the Group on acquisition	30,483
Cash outflow of the Company on acquisition	30,722

The acquired business contributed revenue of RM68,573,000 and profit of RM1,977,000 to the Group for the period from date of acquisition to 31 December 2006.

Had the acquisition taken effect on 1 January 2006, the revenue and profit of the Group would have been RM384,005,000 and RM29,289,000 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional amortisation that would have been charged assuming the fair value adjustment to intangible assets were applied from 1 January 2006, together with the consequential tax effects.

Financial year ended 31 December 2005

On 15 December 2005, the Company acquired from its ultimate holding company, Scomi Group Bhd, the entire equity interest in Scomi OMS Oilfield Holdings Sdn Bhd (formerly known as OMS Oilfield Holdings (Malaysia) Sdn Bhd), OMS Oilfield Services Pte Ltd, Scomi Transportation Solutions Sdn Bhd and Scomi Sdn Bhd (known collectively as "the Acquisition").

In relation to the acquisition of Scomi Transportation Solutions Sdn Bhd (and its subsidiary company) and also Scomi Sdn Bhd (and its subsidiary company), the ultimate holding company had provided a profit guarantee with regards to the future consolidated profit before tax of those companies for the three financial years ending 31 December 2007.

The purchase consideration for the Acquisition of RM285,000,000 was settled via the issuance of 192,567,567 ordinary shares of RM1.00 per share of the Company at an issue price of RM1.48 per share. The purchase consideration was further adjusted to RM298,538,000 to fulfil a condition to procure additional banking facilities to repay the vendors as stipulated in the conditional sale and purchase agreement entered between the Company and the respective vendors.

The Acquisition had no material effect on the financial results of the Group during the financial year ended 31 December 2005.

4 SIGNIFICANT ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONT'D.)

(a) Acquisition of subsidiaries (cont'd.)

Details of net assets acquired were as follows:

	2005	
	Acquiree's carrying value RM'000	**Fair value RM'000**
Property, plant and equipment (Note 16)	47,836	47,836
Other investments	542	542
Inventories	42,995	42,995
Trade and other receivables	192,510	192,510
Cash and bank balances	20,500	20,500
Tax recoverable	2,205	2,205
Trade and other payables	(142,684)	(142,684)
Bank overdrafts	(4,058)	(4,058)
Borrowings	(61,096)	(61,096)
Current tax liabilities	(6,583)	(6,583)
Deferred tax liabilities (Note 29)	(1,116)	(1,116)
Net assets	91,051	91,051
Goodwill on consolidation (Note 19)		207,487
Cost of acquisition		298,538

Details of cash flows arising from the acquisition were as follows:

	2005 RM'000
Total purchase consideration	298,538
Purchase consideration discharged by issue of shares (Note 23 (b))	(285,000)
Purchase consideration discharged by cash	13,538
Less: Cash and cash equivalents of subsidiaries acquired (net)	(16,442)
Cash inflow of the Group on acquisition	(2,904)

During the current financial year ended 31 December 2006, an adjustment of RM2,000,000 was made to reduce the fair value of trade and other receivables to RM190,510,000, resulting in an increase in goodwill by RM2,000,000 to RM209,487,000 (Note 19).

4 SIGNIFICANT ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONT'D.)

(b) Disposal of subsidiaries

Financial year ended 31 December 2005

Pursuant to the Composite Scheme of Arrangement carried out by the Company in the previous financial year as disclosed in Note 37(a) to the financial statements, all undertakings, properties and assets of the Company were transferred and all related business operations were discontinued. As a result of this transfer, the Company's investment in Bell & Order Engineering Pte Ltd, a subsidiary in Singapore, was disposed of and the Group recognised a gain of RM11,186,000 arising from this disposal in its income statement during the financial year ended 31 December 2005.

The effects of the disposal on the Group's results for the previous financial year were as follows:

Discontinued operations

	2005 RM'000
Revenue	918
Expenses excluding finance cost and tax	(3,419)
Gain on disposal of subsidiaries	11,186
Profit from operations	8,685
Finance cost	(401)
Profit for the financial year	8,284

The effects of the disposal on the financial position of the Group at the date of disposal were as follows:

	At date of disposal RM'000
Property, plant and equipment (Note 16)	999
Payables	(2,933)
Bank overdrafts	(832)
Bank borrowings	(6,149)
Net liabilities	(8,915)
Realisation of currency exchange reserve	(2,271)
Net disposal proceeds	–
Gain on disposal of subsidiaries	(11,186)

4 SIGNIFICANT ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONT'D.)

(b) Disposals of subsidiaries (cont'd.)

	2005
	At date of disposal RM'000
Non-current assets	923
Current liabilities	(9,801)
Non-current liabilities	(37)
Total liabilities	(9,838)
Net liabilities	(8,915)

The net cash flows on disposal were as follows:

	2005
	At date of disposal RM'000
Proceeds from disposal	–
Cash and cash equivalents of subsidiaries disposed of	832
Net cash inflow on disposal	832

The cash flows attributable to the subsidiaries disposed of were as follows:

Operating activities	832
Net cash inflow on disposals	832
Total cash flows	832

5 DISCONTINUED OPERATIONS

The Group and the Company have applied FRS 5 – Non-current Assets Held for Sale and Presentation of Discontinued Operations in accordance with its transitional provision, which has resulted in the recognition of discontinued operations.

The Company was dormant in the previous financial year, and following the completion of the restructuring exercise undertaken by the Company on 15 December 2005, there was a reverse take over of the Company and also a significant change in the business direction of the Company. The Group ceased providing services in the design, manufacture, supply and installation of sound and communication systems since early 2005.

The comparative figures in the consolidated income statement reflect these business activities as discontinued operations. An analysis of the results of the discontinued operations, and the restated comparatives, are as follows:

	Group		Company	
	As previously reported RM'000	**As restated RM'000**	**As previously reported RM'000**	**As restated RM'000**
2005				
Revenue (Note 7)	918	–	–	–
Cost of sales (Note 8)	(191)	–	–	–
Gross profit	727	–	–	–
Other operating income:				
– gain on disposal of subsidiaries pursuant to the Composite Scheme of Arrangement	11,186	–	–	–
– waiver of debts pursuant to the Composite Scheme of Arrangement	14,194	–	14,194	–
– others	102	–	100	–
Other operating expenses	(4,929)	–	(2,873)	–
Administrative expenses	(3,136)	–	(1,962)	–
Finance costs (Note 12)	(1,443)	–	(1,042)	–
Profit before taxation	16,701	–	8,417	–
Tax expense	–	–	–	–
Profit from continuing operations	16,701	–	8,417	–
Profit from discontinued operations	–	16,701	–	8,417
Profit for the financial year	**16,701**	**16,701**	**8,417**	**8,417**

5 DISCONTINUED OPERATIONS (CONT'D.)

The impact of the discontinued operations on the cash flows of the Group and Company is as follows:

	Group RM'000	Company RM'000
2005		
Operating cash flows	13,687	45
Investing cash flows	848	16
Total cash flows	14,535	61

6 IMPAIRMENT OF ASSETS

Impairment tests for goodwill

The carrying amounts of goodwill allocated to the Group's CGUs are as follows:

	Group	Company
	2006 RM'000	**2005 RM'000**
Machine shop	**183,699**	183,699
Logistics engineering	**5,947**	15,676
Fleet management	**6,381**	10,112
Bus/monorail	**17,750**	–
	213,777	209,487

The recoverable amounts of the CGUs have been based on value in use, other than for fleet management where this was determined based on the net selling price which was assessed based on a sales agreement subsequent to the balance sheet date to dispose of the unit as disclosed in Note 38(c) to the financial statements.

The value in use calculations use pre-tax cash flow projections based on financial budgets approved by the Directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates are not expected to exceed the long-term average growth rates for the relevant CGUs.

6 IMPAIRMENT OF ASSETS (CONT'D.)

	Growth rate[1]	Pre-tax discount rate[2]
Machine shop	5%	10.3%
Logistics engineering	3%	10.5%
Bus/monorail	3%	10.8%

[1] Weighted average growth rate used to extrapolate cash flows beyond the budget period

[2] Pre-tax discount rate applied to the cash flow projections

The weighted average growth rates were based on expectations from past performances with consideration given to the industries in which the CGUs operate. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

7 REVENUE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Continuing operations				
Sale of goods	315,668	–	–	–
Rendering of services	8,272	–	4,000	–
Tax exempt dividend from subsidiary company	–	–	12,000	–
	323,940	–	16,000	–
Discontinued operations				
Construction contracts (Note 5)	–	918	–	–
	323,940	918	16,000	–

Revenue of the Group in the previous financial year was wholly in respect of the discontinued operations as disclosed in Note 5 to the financial statements.

8 COST OF SALES

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Continuing operations				
Cost of inventories sold	235,057	–	–	–
Others	7,968	–	–	–
	243,025	–	–	–
Discontinued operations				
Construction contracts (Note 5)	–	191	–	–
	243,025	191	–	–

9 PROFIT BEFORE TAXATION

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
(a) **Profit before taxation is stated after charging:**				
Allowance for doubtful debts	1,005	–	–	–
Auditors' remuneration (Note 10)	637	951	95	498
Depreciation of property, plant and equipment (Note 16)	8,562	124	–	37
Property, plant and equipment written off (Note 16)	2	160	–	–
Operating lease rental				
– plant and machinery	287	–	–	–
Rental of premises	1,068	–	75	–
Rental of equipment	397	10	–	–
Rental of vehicle	–	–	167	–
Loss on disposal of assets pursuant to the Composite Scheme of Arrangement under the restructuring exercise	–	2,744	–	2,744
Inventories written off	172	265	–	–
Bad debts written off	–	946	–	129
Foreign exchange losses				
– unrealised	–	–	187	–
– realised	639	–	–	–

9 PROFIT BEFORE TAXATION (CONT'D.)

		Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
(a)	**Profit before taxation is stated after crediting:**				
	Gain on disposal of property, plant and equipment	**222**	16	**–**	16
	Interest income				
	– related companies	**1,212**	–	**1,212**	–
	– deposits	**135**	–	**105**	–
	– money market fund	**175**	–	**175**	–
	Lease income	**199**	–	**–**	–
	Rental of vehicles				
	– to holding company	**772**	–	**–**	–
	– to related companies	**892**	–	**–**	–
	Rental income	**147**	84	**–**	84
	Gain on disposal of subsidiaries pursuant to the Composite Scheme of Arrangement under the restructuring exercise	**–**	11,186	**–**	–
	Waiver of debts pursuant to the Composite Scheme of Arrangement under the restructuring exercise	**–**	14,194	**–**	14,194
	Unrealised foreign exchange gains	**473**	–	**–**	–
(b)	**Employee information – staff costs** (including Executive Directors)				
	– wages, salaries and bonuses	**26,388**	702	**1,867**	174
	– defined contribution plan	**1,652**	108	**226**	22
	– other employment benefits	**4,261**	3	**220**	3
	– share option expenses	**2,755**	–	**1,025**	–
		35,056	813	**3,338**	199

10 AUDITORS' REMUNERATION

	Group		Company	
	2006 **RM'000**	2005 RM'000	**2006** **RM'000**	2005 RM'000
PricewaterhouseCoopers				
Malaysian firm				
– statutory audit	**188**	28	**70**	28
– non-audit fees	**80**	470*	**25**	470*
	269	498	**95**	498
Affiliates of PricewaterhouseCoopers				
Malaysian firm (including overseas PricewaterhouseCoopers firms)				
– statutory audit	**299**	392	**–**	–
Other external auditors				
– statutory audit	**70**	61	**–**	–
Total remuneration	**637**	951	**95**	498

* Accounted for in Share Premium Account upon issuance of shares.

11 DIRECTORS' REMUNERATION

The Directors who held office during the financial year were as follows:

<u>Executive Directors</u>
Shah Hakim @ Shahzanim bin Zain

<u>Non-executive Directors</u>
Datuk Zainun Aishah binti Ahmad
Dato' Abdul Rahim bin Abu Bakar
Edlin bin Ghazaly
Fad'l bin Mohamed
Gregory Jerome Gerald Fernandes (resigned on 18 July 2006)

11 DIRECTORS' REMUNERATION (CONT'D.)

The aggregate amount of emoluments receivable by Directors of the Company during the financial year were as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Past Executive Directors				
– basic salaries and bonus	–	153	–	153
– other employee benefits	–	77	–	77
Existing Executive Directors				
– share options	196	–	196	–
	196	230	196	230
Non-executive Directors				
– fees	204	100	204	100
– share options	275	–	275	–
	675	330	675	330

12 FINANCE COSTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Continuing operations				
Interest expense				
– bank overdrafts	238	–	–	–
– other bank borrowings	3,951	–	–	–
Discontinued operations (Note 5)				
Interest expense				
– bank overdrafts	–	14	–	14
– other bank borrowings	–	1,429	–	1,028
	4,189	1,443	–	1,042

13 TAX EXPENSE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Current tax				
– Malaysian income tax	2,571	–	–	–
– Foreign tax	8,662	–	–	–
	11,233	–	–	–
Deferred tax (Note 29)	(345)	–	–	–
Tax expense	10,888	–	–	–
Current tax				
Current year	11,256	–	–	–
Over provision in prior financial years	(23)	–	–	–
	11,233	–	–	–
Deferred tax				
Reversal and origination of temporary differences	(294)	–	–	–
Over provision in prior financial years	(51)	–	–	–
	(345)	–	–	–
	10,888	–	–	–

13 TAX EXPENSE (CONT'D.)

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

	Group		Company	
	2006 RM'000	**2005 RM'000**	**2006 RM'000**	**2005 RM'000**
Profit before taxation	**41,096**	16,701	**11,011**	8,417
Tax calculated at the Malaysian tax rate of 28% (2005: 28%)	**11,507**	4,676	**3,084**	2,356
Tax effects of:				
– current year's tax loss not recognised	**497**	236	**250**	–
– different tax rate in other countries	**(2,143)**	–	**–**	–
– expenses not deductible for tax purposes	**2,316**	1,642	**414**	1,642
– previously unrecognised tax losses	**(192)**	(3,738)	**–**	(3,738)
– previously unrecognised capital allowances	**–**	(228)	**–**	(228)
– income not subject to tax	**(1,023)**	(2,556)	**(3,748)**	–
– others	**–**	(32)	**–**	(32)
Over provision in prior financial years	**(74)**	–	**–**	–
Tax expense	**10,888**	–	**–**	–

14 EARNINGS PER SHARE

(a) Basic earnings per share

Basic and diluted earnings per share of the Group are calculated by dividing the profit attributable to the equity holders of the Company for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2006 RM'000	**2005 RM'000**
Profit from continuing operations attributable to ordinary equity holders of the Company	**28,267**	–
Profit from discontinued operations attributable to ordinary equity holders of the Company	**–**	16,701
Profit attributable to shareholders	**28,267**	16,701
Weighted average number of ordinary shares in issue ('000)	**267,033**	21,822
Basic earnings per share (sen)		
– Continuing operations	**10.59**	–
– Discontinued operations	**–**	76.53
	10.59	76.53

14 EARNINGS PER SHARE (CONT'D.)

(b) Diluted earnings per share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares comprise share options granted to employees in the current financial year.

In respect of share options granted to employees, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. This calculation serves to determine the 'bonus' element in the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to profit for the financial year for the share options calculation.

	Group	
	2006 RM'000	**2005 RM'000**
Profit from continuing operations attributable to ordinary equity holders of the Company	**28,267**	–
Profit from discontinued operations attributable to ordinary equity holders of the Company	**–**	16,701
Profit attributable to shareholders	**28,267**	16,701
Weighted average number of ordinary shares in issue ('000)	**267,033**	21,822
Adjustment for:		
– share options ('000)	**6,928**	–
Weighted average number of ordinary shares ('000)	**273,961**	21,822
Diluted earnings per share (sen)		
– Continuing operations	**10.32**	–
– Discontinued operations	**–**	76.53
	10.32	76.53

15 DIVIDENDS

A final tax exempt dividend of 3 sen (2005: Nil) per share in respect of the financial year ended 31 December 2006, amounting to approximately RM8,118,827 (2005: Nil) will be proposed for shareholders' approval at the forthcoming Annual General Meeting.

16 PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Freehold buildings RM'000	Long-term leasehold land RM'000	Short-term leasehold land RM'000	Leasehold buildings RM'000	Rental equipment RM'000	Furniture, fixtures and equipment RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Monorail test track RM'000	Total RM'000
Group											
2006											
Cost											
At 1 January 2006	–	–	1,206	5,600	1,545	3,653	998	12,638	22,196	–	47,836
Additions	–	–	–	328	–	–	1,106	5,670	5,620	–	12,724
Disposals	–	–	–	–	–	–	(66)	(243)	(1,740)	–	(2,049)
Write-offs	–	–	–	–	(16)	–	(153)	–	(16)	–	(185)
Acquisition of subsidiaries (Note 4(a))	8,020	10,724	–	–	–	–	198	481	5,547	14,800	39,770
Currency translation differences	–	–	–	(35)	(75)	–	(164)	(96)	(1,647)	–	(2,017)
At 31 December 2006	8,020	10,724	1,206	5,893	1,454	3,653	1,919	18,450	29,960	14,800	96,079
Accumulated depreciation											
At 1 January 2006	–	–	–	–	–	–	–	–	–	–	–
Charge during the financial year (Note 9(a))	–	129	–	166	189	474	445	3,828	3,084	247	8,562
Disposals	–	–	–	–	–	–	(57)	(166)	(1,273)	–	(1,496)
Write-offs	–	–	–	–	(16)	–	(151)	–	(16)	–	(183)
Currency translation differences	–	–	–	–	253	–	(138)	(6)	(625)	–	(516)
At 31 December 2006	–	129	–	166	426	474	99	3,656	1,170	247	6,367
Net book value											
At 31 December 2006	8,020	10,595	1,206	5,727	1,028	3,179	1,820	14,794	28,790	14,553	89,712

16 PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Freehold land RM'000	Freehold buildings RM'000	Long-term leasehold land RM'000	Short-term leasehold land RM'000	Leasehold buildings RM'000	Rental equipment RM'000	Furniture, fixtures and equipment RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Renovations RM'000	Total RM'000
Group											
2005											
Cost											
At 1 January 2005	1,366	3,003	–	–	–	–	903	218	–	445	5,935
Additions	366	–	–	–	–	–	–	–	–	–	366
Disposals	(1,732)	(1,502)	–	–	–	–	–	(113)	–	–	(3,347)
Write-offs	–	–	–	–	–	–	(152)	–	–	(445)	(597)
Disposal of subsidiaries (Note 4(b))	–	(1,501)	–	–	–	–	(751)	(105)	–	–	(2,357)
Acquisition of subsidiaries (Note 4(a))	–	–	1,206	5,600	1,545	3,653	998	12,638	22,196	–	47,836
At 31 December 2005	–	–	1,206	5,600	1,545	3,653	998	12,638	22,196	–	47,836
Accumulated depreciation											
At 1 January 2005	–	650	–	–	–	–	855	176	–	331	2,012
Charge during the financial year (Note 9(a))	–	40	–	–	–	–	24	30	–	30	124
Disposals	–	(228)	–	–	–	–	–	(113)	–	–	(341)
Write-offs	–	–	–	–	–	–	(76)	–	–	(361)	(437)
Disposal of subsidiaries (Note 4(b))	–	(462)	–	–	–	–	(803)	(93)	–	–	(1,358)
At 31 December 2005	–	–	–	–	–	–	–	–	–	–	–
Net book value											
At 31 December 2005	–	–	1,206	5,600	1,545	3,653	998	12,638	22,196	–	47,836

16 PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Company	Freehold land RM'000	Freehold buildings RM'000	Motor vehicles RM'000	Total RM'000
2005				
Cost				
At 1 January 2005	1,366	1,502	113	2,981
Additions	366	–	–	366
Disposals	(1,732)	(1,502)	(113)	(3,347)
At 31 December 2005	–	–	–	–
Accumulated depreciation				
At 1 January 2005	–	200	104	304
Charge during the financial year (Note 9(a))	–	28	9	37
Disposals	–	(228)	(113)	(341)
At 31 December 2005	–	–	–	–
Net book value				
At 31 December 2005	–	–	–	–

Certain property, plant and equipment of the Group are charged as security for banking facilities as disclosed in Note 28 to the financial statements.

During the financial year, the Group acquired property, plant and equipment and motor vehicles with an aggregate cost of RM12,724,000 (2005: Nil), of which RM4,552,000 was acquired by means of hire purchase and finance lease arrangements. Cash payments of RM8,172,000 were made in respect of these assets.

The net book value of property, plant and equipment and motor vehicles acquired under hire purchase and finance lease arrangements by the Group at the balance sheet date was RM18,840,000 (2005: RM18,948,000).

17 SUBSIDIARIES

		Company	
		2006	**2005**
		RM'000	**RM'000**
(i)	Investment in subsidiaries		
	Unquoted shares, at cost	**316,365**	298,538
(ii)	Amount due from subsidiaries		
	– trade	**4,000**	–
	– non-trade	**28,685**	–
		32,685	–
	The currency exposure profile of amounts due from subsidiaries is as follows:		
	– Ringgit Malaysia	**8,307**	–
	– US Dollar	**24,378**	–
		32,685	–
(iii)	Amounts due to subsidiaries		
	– non-trade	**60,481**	13,547
	The currency exposure profile of amounts due to subsidiaries is as follows:		
	– Ringgit Malaysia	**13,563**	9
	– US Dollar	**46,918**	13,538
		60,481	13,547

The amounts due to/from subsidiaries' are interest free, unsecured and have no fixed terms of repayment.

17 SUBSIDIARIES (CONT'D.)

The details of the subsidiaries are as follows:

Name	Country of incorporation	Group's effective equity interest 2006 %	2005 %	Principal activities
Scomi OMS Oilfield Holdings Sdn Bhd (formerly known as OMS Oilfield Holdings (Malaysia) Sdn. Bhd.)	Malaysia	**100**	100	Investment holding.
OMS Oilfield Services Pte. Ltd. @	Singapore	**100**	100	Investment holding and provision of machine shop services.
Scomi Sdn. Bhd. *	Malaysia	**100**	100	Manufacture and fabrication of road transport equipment, material handling equipment and provision of related engineering support services.
Scomi Transportation Solutions Sdn. Bhd. *	Malaysia	**100**	100	Provision of motor vehicles on 'hire and drive' basis.
MTrans Transportation Systems Sdn. Bhd.	Malaysia	**51**	–	Investment holding.
Subsidiary of Scomi OMS Oilfield Holdings Sdn. Bhd. (formerly known as OMS Oilfield Holdings (Malaysia) Sdn. Bhd.)				
Scomi OMS Oilfield Services Sdn. Bhd. (formerly known as OMS Oilfield Services (Malaysia) Sdn. Bhd.)	Malaysia	**100**	100	Provision of machine shop services for tools and equipment used in the petroleum industry.
Subsidiary of Scomi Sdn Bhd				
Scomi Trading Sdn. Bhd. *	Malaysia	**100**	100	Marketing agent for road transport equipment and related products.
Subsidiary of Scomi Transportation Solutions Sdn. Bhd.				
Asian Rent-A-Car Sdn Bhd. *	Malaysia	**100**	100	Provision of motor vehicles on 'hire and drive' basis.

17 SUBSIDIARIES (CONT'D.)

Name	Country of incorporation	Group's effective equity interest 2006 %	2005 %	Principal activities
Subsidiaries of OMS Oilfield Services Pte Ltd				
PT OMS Oilfield Services @	Indonesia	**95**	95	Provision of machine shop services for tools and equipment used in the petroleum industry.
OMS Oilfield Services (Australia) Pty. Ltd.	Australia	**100**	100	Provision of machine shop services for tools and equipment used in the petroleum industry.
OMS Oilfield Services (Thailand) Ltd. @	Thailand	**100**	100	Provision of machine shop services for tools and equipment used in the petroleum industry.
OMS Oilfield Services Limited *	British Virgin Island	**100**	–	Investment holding.
PY Oiltools Sdn Bhd @ ^	Brunei	**–**	–	Machine shop services and provision of oilfield equipment supplies and services.
Subsidiaries of MTrans Transportation Systems Sdn. Bhd.				
MTrans Technology Berhad	Malaysia	**51**	–	Manufacture and supply of monorail trains and related services.
MTrans Bus Sdn. Bhd.	Malaysia	**51**	–	Manufacturing, fabrication and assembly of commercial coaches and truck vehicle bodies.

* Not audited by PricewaterhouseCoopers.

@ Audited by a member firm of PricewaterhouseCoopers International Limited which is a separate and independent legal entity firm from PricewaterhouseCoopers Malaysia.

^ The results of the company are consolidated as OMS Oilfield Services Pte Ltd has control over the company through contractual business arrangements.

18 OTHER INVESTMENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-current assets				
Quoted shares	2,594	–	–	–
Allowance for diminution in value	(2,509)	–	–	–
	85	–	–	–
Unquoted shares	542	542	–	–
	627	542	–	–
Market value of quoted shares	85	–	–	–
Current assets				
Investment in a money market fund	7,750	–	7,750	–
Market value	7,750	–	7,750	–

The fund distribution averaged 3.00% in the financial year.

19 INTANGIBLE ASSETS

Group	Goodwill RM'000	Development costs RM'000	Total RM'000
As at 1 January 2006 (as restated)	209,487	–	209,487
Adjustment to cost of business combination			
– profit guarantees received/receivable (Note 34)	(14,726)	–	(14,726)
– others	1,266	–	1,266
Acquisition of subsidiaries (Note 4(a))	17,750	2,786	20,536
Additions during the financial year	–	1,576	1,576
As at 31 December 2006	213,777	4,362	218,139
Cost:			
As at 1 January 2005	–	–	–
Acquisition of subsidiaries (Note 4(a))	207,487	–	207,487
As at 31 December (as previously reported)	207,487	–	207,487
Adjustment to provisional goodwill on business combination in previous financial year (Note 4(a))	2,000	–	2,000
As at 31 December 2005 (as restated)	209,487	–	209,487

19 INTANGIBLE ASSETS (CONT'D.)

Development costs comprise an amount of RM2,786,000 in respect of monorail technical know-how arising from the acquisition of MTrans and RM1,576,000 comprising internally generated expenditure on development costs on major projects where it is reasonably anticipated that the costs will be recovered through future commercial activity.

The remaining amortisation period at financial year end in respect of the technical know-how is 10 years whilst the amortisation of the internally generated development costs will only commence when the asset is available for use.

No amortisation charge has been provided in the current financial year for the development costs acquired as the amounts are immaterial.

20 INVENTORIES

	Group	
	2006 RM'000	**2005 RM'000**
Raw materials	**22,205**	11,172
Work-in-progress	**72,247**	29,870
Finished goods	**688**	872
Consumables	**2,072**	1,081
	97,212	42,995

21 RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Trade receivables	**119,366**	47,422	**–**	–
Allowance for doubtful debts	**(1,955)**	(2,669)	**–**	–
	117,411	44,753	**–**	–
Other receivables	**17,236**	2,306	**8,817**	141
Deposits	**4,081**	4,226	**–**	–
Prepayments	**7,110**	1,768	**–**	–
	145,838	53,053	**8,817**	141
Currency exposure profile:				
– Ringgit Malaysia	**97,420**	21,710	**8,817**	141
– US Dollar	**41,946**	27,831	**–**	–
– Singapore Dollar	**2,472**	1,799	**–**	–
– Others	**4,000**	1,713	**–**	–
	145,838	53,053	**8,817**	141

Credit terms of trade receivables range from 30 days to 120 days (2005: 30 days to 90 days).

The Group's historical experience in collection of accounts receivable falls within the recorded allowances. Due to this factor, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's receivables.

22 AMOUNTS DUE FROM/(TO) RELATED CORPORATIONS

Included in the amounts due from related corporations of the Group and Company is a receivable of RM23,076,573 (USD6,537,273) at an interest rate of 9.25% per annum. This amount is unsecured and was settled subsequent to the financial year end on 26 January 2007.

The other amounts due to/from related corporations are interest free, unsecured and have no fixed terms of repayment.

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Currency exposure profile of amounts due from related corporations is as follows:				
– Ringgit Malaysia	**67**	16,974	**–**	–
– US Dollar	**27,221**	107,077	**27,588**	–
At 31 December	**27,288**	124,051	**27,588**	–
The currency exposure profile of amounts due to related corporations is as follows:				
– Ringgit Malaysia	**65**	21,683	**1**	–
– US Dollar	**–**	75,092	**–**	–
At 31 December	**65**	96,775	**1**	–

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents included in the cash flow statements comprise the following:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deposits with licensed banks	**7,300**	991	**6,626**	–
Cash and bank balances	**28,991**	19,519	**1,797**	10
	36,291	20,510	**8,423**	10
Bank overdrafts (Note 28)	**(4,977)**	(4,058)	**–**	–
	31,314	16,452	**8,423**	10
Deposits with licensed bank pledged as security for bank facilities	**(488)**	(991)	**–**	–
	30,826	15,461	**8,423**	10

23 CASH AND CASH EQUIVALENTS (CONT'D.)

(a) Cash and cash equivalents included in the cash flow statements comprise the following (cont'd.):

The currency exposure profile for deposits with licensed banks and cash and bank balances is as follows:

	Group		Company	
	2006 RM'000	**2005 RM'000**	**2006 RM'000**	**2005 RM'000**
Currency exposure profile:				
– Ringgit Malaysia	**17,329**	2,094	**8,423**	10
– US Dollar	**17,697**	16,964	**–**	–
– Singapore Dollar	**346**	629	**–**	–
– Others	**919**	823	**–**	–
	36,291	20,510	**8,423**	10

The range of interest rates per annum of deposits that was effective at the balance sheet date for the Group and Company is as follows:

	Group		Company	
	2006 %	**2005 %**	**2006 %**	**2005 %**
Deposit with licensed banks	**3.12 – 3.70**	2.90 – 3.70	**3.35**	–

Deposits with licensed banks of the Company have a maturity period of 30 days (2005: Nil). Deposits with licensed banks of the Group have a maturity period ranging from 30 to 455 days (2005: 30 to 455 days). Bank balances are deposits held at call with banks.

(b) Non-cash transactions

The principal non-cash transactions during the previous financial year were the issue of shares by the Group and Company for RM285,000,000 as partial discharge of purchase consideration (Note 4(a)) for the Acquisition, the waiver of debts pursuant to the Scheme of Arrangement (under the restructuring exercise) amounting to RM14,194,000 and the acquisition of freehold land amounting to RM366,000 via a swap agreement with a property developer as full compensation for the 10% deposit paid by the Company for 6 acres of freehold industrial land in a property development project that was terminated in prior years.

24 PAYABLES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade payables	**114,903**	23,137	**–**	–
Scheme creditors	**–**	15,073	**–**	15,073
Other payables	**30,592**	26,224	**1,600**	3,452
	145,495	64,434	**1,600**	18,525

Scheme creditors represent amounts payable to creditors of the Company which had been identified under the Composite Scheme of Arrangement in the previous financial year as disclosed in Note 37(a) to the financial statements. The repayments to the Scheme Creditors were made on the basis of full settlement for the first RM1,000 of unsecured debt or proportion thereof, and RM0.40 bullet cash payment for each RM1.00 of unsecured debt for the balance exceeding RM1,000.

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Currency exposure profile:				
– Ringgit Malaysia	**65,854**	37,506	**1,600**	18,525
– US Dollar	**67,569**	14,730	**–**	–
– Singapore Dollar	**11,010**	3,364	**–**	–
– Sterling Pound	**–**	8,239	**–**	–
– Others	**1,062**	595	**–**	–
	145,495	64,434	**1,600**	18,525

Credit terms of trade and other payables granted to the Group and Company vary from no credit to 90 days (2005: no credit to 60 days).

25 FINANCE LEASE AND HIRE PURCHASE LIABILITIES

	Group	
	2006 RM'000	2005 RM'000
Current liabilities	**4,289**	3,489
Non-current liabilities	**10,660**	10,862
Total finance lease and hire purchase liabilities	**14,949**	14,351
Minimum lease payments:		
– not later than 1 year	**5,142**	4,197
– later than 1 year and not later than 5 years	**11,557**	12,219
– later than 5 years	**37**	–
	16,736	16,416
Future finance charges	**(1,787)**	(2,065)
Present value of finance lease and hire purchase liabilities	**14,949**	14,351
Present value of finance lease and hire purchase liabilities:		
– not later than 1 year	**4,289**	3,489
– later than 1 year and not later than 5 years	**10,629**	10,862
– later than 5 years	**31**	–
	14,949	14,351

The currency profile of finance lease and hire purchase liabilities is as follows:

	Group	
	2006 RM'000	2005 RM'000
– Ringgit Malaysia	**14,169**	13,566
– US Dollar	**780**	785
	14,949	14,351

Finance lease and hire purchase liabilities were effectively secured as the rights to those assets held under finance lease and hire purchase arrangements revert to the lessors in the event of default.

The effective interest rates applicable for finance lease and hire purchase liabilities range from 2.60% to 7.85% (2005: 4% to 12%) per annum.

26 AMOUNTS DUE TO ULTIMATE HOLDING COMPANY

Amounts due to ultimate holding company are interest free, unsecured and have no fixed terms of repayment.

The amounts are denominated in Ringgit Malaysia.

27 AMOUNTS DUE TO DIRECTORS

Amounts due to Directors in the previous financial year were interest free, unsecured, had no fixed terms of repayment and were denominated in Ringgit Malaysia. The amounts due were fully settled during the current financial year.

28 BORROWINGS (INTEREST BEARING)

	Group	
	2006 RM'000	**2005 RM'000**
Secured		
Current		
Bank overdrafts (Note 23)	**4,977**	4,058
Others:		
Term loans	**18,974**	19,503
Bankers' acceptances	**7,405**	7,703
Trust receipts	**18,755**	–
	45,134	27,206
	50,111	31,264
Non-current		
Term loans	**11,723**	19,539
	61,834	50,803
Total		
Bank overdrafts	**4,977**	4,058
Term loans	**30,697**	39,042
Bankers' acceptances	**7,405**	7,703
Trust receipts	**18,755**	–
Total borrowings	**61,834**	50,803

28 BORROWINGS (INTEREST BEARING) (CONT'D.)

	Group	
	2006 RM'000	2005 RM'000
Currency exposure profile:		
– Ringgit Malaysia	**33,594**	13,736
– US Dollar	**28,240**	37,067
	61,834	50,803
Maturity of borrowings:		
– not later than 1 year	**50,111**	31,279
– later than 1 year and not later than 2 years	**8,007**	8,145
– later than 2 years and not later than 3 years	**3,716**	7,586
– later than 3 years and not later than 4 years	**–**	3,793
	61,834	50,803

The contractual terms of borrowings and the effective interest rates as at balance sheet date are as follows:

	Group			
	2006		2005	
	Contractual terms % per annum	Effective interest rates % per annum	Contractual terms % per annum	Effective interest rates % per annum
Bank overdraft	**BLR + 1.00**	**6.00 – 9.00**	BLR + 1.00	5.00 – 6.00
	BLR + 1.25		BLR + 1.25	
	BLR + 2.25		BLR + 1.50	
	BLR + 2.50			
Trust receipts	**BLR + 2.50**	**6.08**	–	–
Term loans	**BLR + 1.50**	**5.87 – 8.75**	BLR + 1.50	5.87 – 7.75
	BLR + 2.00		SIBOR + 0.50	
	SIBOR + 0.50			
Bankers' acceptances	**Bank's cost of fund + 1.00**	**3.83 – 5.60**	Bank's cost of fund + 0.85	2.88 – 3.05

Bank overdrafts and bankers' acceptances of the Group are secured by way of:

(i) a corporate guarantee from the holding company and negative pledge over the present and future fixed and floating assets of a subsidiary; and

(ii) pledge over fixed deposits of a subsidiary amounting to RM488,000 (2005: RM991,000).

28 BORROWINGS (INTEREST BEARING) (CONT'D.)

The trust receipts are secured by an assignment of contract proceeds.

A term loan and certain bankers' acceptances of a subsidiary in respect of two contracts are secured by way of Irrevocable Letter of Undertaking from third parties. Another term loan is secured over landed properties of a subsidiary.

The term loan denominated in USD of RM28,240,000 (USD8,000,000) (2005: RM37,067,000; USD10,000,000) is secured by way of a negative pledge over the present and future fixed floating assets of a subsidiary, a Standby Letter of Credit and also a corporate guarantee of the Company. The loan is repayable in quarterly instalments falling due between 15 March 2006 and 15 June 2009, with a minimum prepayment sum of RM10,590,000 (USD3,000,000) to be made in 2007.

29 DEFERRED TAX

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

	Group	
	2006 RM'000	2005 RM'000
Deferred tax assets	410	–
Deferred tax liabilities:		
– subject to income tax	(3,497)	(1,116)
	(3,087)	(1,116)
At 1 January	(1,116)	–
Credited/(charged) to income statement (Note 13)		
– property, plant and equipment	490	–
– tax losses	(55)	–
– others	(90)	–
	345	–
Acquisition of subsidiaries (Note 4(a))		
– property, plant and equipment	(2,526)	(1,171)
– tax losses	–	55
Others	210	–
At 31 December	(3,087)	(1,116)

29 DEFERRED TAX (CONT'D.)

	Company	
	2006 **RM'000**	**2005** **RM'000**
Subject to income tax		
<u>Deferred tax assets (before offsetting)</u>		
Property, plant and equipment	**582**	424
Tax losses	**–**	55
	582	479
Offsetting	**(172)**	(479)
Deferred tax assets (after offsetting)	**410**	–
<u>Deferred tax liabilities (before offsetting)</u>		
Property, plant and equipment	**3,089**	1,595
Others	**580**	–
	3,669	1,595
Offsetting	**(172)**	(479)
Deferred tax liabilities (after offsetting)	**3,497**	1,116

The amount of unabsorbed tax losses (which is subject to agreement by the tax authorities and other relevant authorities) for which no deferred tax asset is recognised in the balance sheet is as follows:

	Group		Company	
	2006 **RM'000**	**2005** **RM'000**	**2006** **RM'000**	**2005** **RM'000**
Unabsorbed tax losses	**35,640**	34,748	**35,640**	34,748

Deferred tax assets have not been recognised on the unabsorbed tax losses as it is uncertain that there will be future taxable profits to utilise the unabsorbed tax losses.

30 SHARE CAPITAL

	Group and Company			
	2006		2005	
	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000
Authorised ordinary shares of RM1.00 each:				
At 1 January	**400,000**	**400,000**	100,000	100,000
Created during the financial year	**–**	**–**	300,000	300,000
At 31 December	**400,000**	**400,000**	400,000	400,000
Issued and fully paid ordinary shares of RM1.00 each:				
At 1 January	**211,751**	**211,751**	19,184	19,184
Issued during the financial year				
– Acquisition of subsidiaries	**–**	**–**	192,567	192,567
– Rights issue	**57,552**	**57,552**	–	–
– Exercise of share options	**1,324**	**1,324**	–	–
At 31 December	**270,627**	**270,627**	211,751	211,751

(a) Increase in share capital

During the financial year, the issued and paid-up share capital of the Company was increased from RM211,751,567, comprising 211,751,567 ordinary shares of RM1.00 each, to RM270,627,567, comprising 270,627,567 ordinary shares of RM1.00 each by way of:

(i) a renounceable rights issue of 57,552,000 shares of RM1.00 each in the Company at an issue price of RM1.20 per share for cash on the basis of three (3) rights issue for every one ordinary share held, the proceeds of which were utilised for settlement pursuant to the Composite Scheme of Arrangement (as disclosed in Note 37(a) to the financial statements), expenses in relation to the restructuring exercise undertaken in 2005 and also working capital for business expansion purposes.

(ii) the issue of 1,324,000 new ordinary shares of RM1.00 each pursuant to the exercise of options granted under the ESOS at an option price of RM1.00 per share for cash.

The new ordinary shares issued during the year rank parri passu in all respects with the existing ordinary shares of the Company.

In the previous financial year, the increase in issued and paid-up capital arose from the acquisition of the entire equity interest in Scomi OMS Oilfield Holdings Sdn Bhd (formerly known as OMS Oilfield Holdings (Malaysia) Sdn Bhd), OMS Oilfield Services Pte Ltd, Scomi Transportation Solutions Sdn Bhd and Scomi Sdn Bhd for a total purchase consideration of RM285,000,000, satisfied by the issuance of 192,567,567 new ordinary shares in the Company at an issue price of RM1.48 per share.

30 SHARE CAPITAL (CONT'D.)

(b) Employees' Share Option Scheme

The Company implemented an Employees' Share Option Scheme ("ESOS") which came into effect on 26 January 2006 for a period of 10 years. The ESOS is governed by the By-Laws which were approved by the shareholders on 10 November 2005.

The principal features of the ESOS are as follows:

(i) The total number of shares comprising options exercised, options remaining exercisable and unexercised offers pending acceptance under the ESOS shall not exceed 15% of the total issued and paid-up share capital of the Company, such that not more than fifty percent (50%) of the shares available under the ESOS are allocated, in aggregate, to the directors and senior management of the Group.

(ii) Not more than ten percent (10%) of the shares available under the ESOS is allocated to any individual Director or employee who, either singly or collectively through his/her associates, holds twenty percent (20%) or more in the issued and paid-up capital of the Company.

(iii) Options shall lapse if the Director ceases his/her directorship with the Company or employee ceases his/her employment with the Company or its subsidiaries prior to the full exercise of his/her options, except when such cessation occurs by reasons as provided by the Company's ESOS By-Laws such as retirement, ill health, injury, physical or mental disability, and subjected always to the discretion and written approval of the Options Committee of the Company.

(iv) The option price under the ESOS is the volume weighted average market price quoted on Bursa Malaysia for the past five (5) consecutive market days prior to the date of grant, save that a discount of not more than 10% may be given at the absolute discretion of the Options Committee for options granted. The option price shall not be lower than the par value of the shares of the Company of RM1.00.

(v) Options granted under the ESOS carry no dividend or voting rights. Upon exercise of the options, shares issued rank pari passu in all respect with the existing ordinary shares of the Company.

(vi) The options granted are exercisable upon receipt of notice of entitlement to exercise from the Options Committee by or before 1st April of each year. The entitlement to exercise is dependent on the Employee Performance Rating achieved in the preceding year.

30 SHARE CAPITAL (CONT'D.)

(b) Employees' Share Option Scheme (cont'd.)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Group and Company 2006	
	Average exercise price RM'000	**Options '000**
At 1 January	–	–
Granted	1.00	35,800
Forfeited	1.00	(3,310)
Exercised	1.00	(1,324)
At 31 December	1.00	31,166

Out of the outstanding options, 3,223,000 units of options were exercisable. Options exercised during the financial year resulted in 1,324,000 unit of shares being issued at RM1.00 each. The weighted average share price at the time of exercise was RM1.46 per share.

Share options were exercised on a regular basis throughout the financial year, and the weighted average share price during the financial year was RM1.46. The exercise price of the share options outstanding at the end of the financial year was RM1.00 and had a remaining contractual life of 9 years. The estimated weighted average fair value of each option granted on 26 January 2006 is RM0.20.

The options granted during the financial year will expire on 25 January 2016.

The fair value of the share options was calculated using the Trinomial option pricing model. The inputs into the model were as follows:

	2006
Weighted average share price (RM)	1.07
Exercise price (RM)	1.00
Expected volatility of share price	35%
Expected life (year)	2
Risk free rate	3.649%
Expected dividend yield	3%

The expected volatility of the share price was based on the expected share price volatility of the ultimate holding company, Scomi Group Bhd, as the Company does not have a share price trend history and the Group's business is primarily in the oil tools business which was acquired from Scomi Group Bhd in the previous financial year. The expected life used in the model is the life of the current ESOS option plans.

During the financial year, the Group recognised total expenses of RM3,030,000 (2005: Nil) in respect of share based payment transactions, all of which are in respect of the ESOS.

31 SHARE PREMIUM

	Group and Company	
	2006 RM'000	2005 RM'000
As at 1 January	68,516	65
Issue of shares		
– acquisition of subsidiaries	–	71,173
– share issue costs	–	(2,722)
– rights issue 57,552,000 new ordinary shares of RM1.00 each at a premium of RM0.20 each	11,510	–
– share issue costs	(1,727)	–
Transfer from share option reserve on exercise of share options	299	–
As at 31 December	78,598	68,516

32 COMMITMENTS

(a) Capital commitments

Capital expenditure not provided for in the financial statements are as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Approved and contracted for	14,340	15,804	–	–
Approved but not contracted for	60,360	18,142	25,000	–
	74,700	33,946	25,000	–
Analysed as follows:				
– property, plant and equipment	41,900	33,946	–	–
– proposed acquisition of additional interest in a subsidiary (Note 38(a))	25,000	–	25,000	–
– development costs	7,800	–	–	–
	74,700	33,946	25,000	–

32 COMMITMENTS (CONT'D.)

(b) Non-cancellable operating lease payments

The Group has entered into non-cancellable operating lease agreements for property, plant and equipment. Commitments for future minimum lease payments are as follows:

	Group	
	2006 RM'000	**2005 RM'000**
Later than 1 year	**947**	803
Later than 1 year and not later than 5 years	**2,945**	2,308
Later than 5 years	**3,619**	3,169
	7,511	6,280

33 CONTINGENT LIABILITIES - UNSECURED

	Company	
	2006 RM'000	**2005 RM'000**
Corporate guarantees	**71,140**	–

The corporate guarantees given to financial institutions are in respect of credit facilities to subsidiary companies. The facilities utilised by the subsidiary companies as at 31 December 2006 amounted to RM29,494,000 (2005: Nil).

34 SIGNIFICANT RELATED PARTY DISCLOSURES

In addition to the related party disclosures mentioned elsewhere in the financial statements, set out below are the Group's other significant related party transactions and amounts outstanding in relation to these transactions:

	Group			
	Transactions		Balance outstanding	
	2006 RM'000	**2005 RM'000**	**2006 RM'000**	**2005 RM'000**
Interest income on an amount receivable from a related company				
– KMC Oiltools Bermuda Limited	1,212	–	1,212	–
Lease income received from a related company				
– KMC Oiltools Overseas (M) Limited	199	–	199	–
Rental of vehicles				
– to ultimate holding company	772	–	395	–
– to related companies				
– Scomi Oiltools Sdn Berhad (formerly known as Kota Minerals & Chemicals Sdn Bhd)	784	–	57	–
– Scomi Oilserve Sdn Bhd (formerly known as Oilserve Marine Sdn Bhd)	20	–	3	–
– Scomi Marine Berhad	63	–	3	–
– Scomi Energy Sdn Bhd	20	–	12	–
– Scomi Sosma Sdn Bhd (formerly known as Sosma Sdn Bhd)	5	–	5	–
Administration fee paid to ultimate holding company	2,000	–	–	–
Airline ticketing services provided by Lintas Travel & Tours Sdn Bhd, a company connected to a Director	187	–	14	–

The Directors are of the view that the above transactions have been entered into in the normal course of business under terms and conditions no less favourable to the Group than those arranged with independent third parties.

In addition to the above, pursuant to profit guarantee arrangements entered into in 2005 with the ultimate holding company (as vendor) in relation to the subsidiary companies acquired in the financial year ended 31 December 2005 as disclosed in Note 4(a) to the financial statements, the Company received an amount of RM6,226,000 in the current financial year being the amount determined as shortfalls in the consolidated profit before tax for its subsidiary companies, Scomi Transportation Solutions Sdn Bhd and Scomi Sdn Bhd, in respect of the financial year ended 31 December 2005. The Company has further accrued for a receivable of RM8,500,000 as the estimated shortfall under the profit guarantee arrangements in relation to these subsidiary companies for the financial year ended 31 December 2006. The profit guarantee amounts received/receivable have been adjusted to the cost of business combination as disclosed under Note 19 to the financial statements.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks in the normal course of business. The Group's risk management seeks to minimise the potential adverse effects of these exposures.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Financial risk management is carried out through risk reviews, internal control systems, a global insurance programme and adherence to Group financial risk management policies. The Board regularly reviews these risks and approves the treasury policies which cover the management of these risks.

The Group does not trade in financial instruments.

(i) Foreign currency exchange risk

The Group is exposed to currency risk as a result of the foreign currency transactions entered into by companies in currencies other than their functional currency. The Group has a natural hedge to the extent that payments for foreign currency payables are matched against receivables denominated in the same foreign currency or whenever possible, by intra-group arrangements and settlements.

(ii) Interest rate risk

<u>Interest rate price risk</u>

The Group is exposed to interest rate price risk through the impact of changes in market interest rates on interest bearing assets and liabilities. The Group monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favourable rates.

<u>Interest rate cash flow risk</u>

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits, and is managed through the use of floating rate debts.

(iii) Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risk is minimised and monitored by limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

(iv) Liquidity risk

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(v) Fair values

(a) Financial instruments recognised on the balance sheet.

The carrying amounts of financial assets and liabilities of the Group and Company at the balance sheet date approximate their fair values except as set out below:

	Group	
	Carrying amount RM'000	Fair value RM'000
2006		
Other investments		
– Unquoted shares	**542**	**542***
Finance lease and hire purchase liabilities	**14,949**	**12,891**
2005		
Other investments		
– Unquoted shares	542	542*
Finance lease and hire purchase liabilities	14,351	12,133

* The fair value of other investments is not materially different from the carrying amount.

The following methods and assumptions are used to estimate the fair value of each class of financial assets and liabilities:

(i) <u>Cash and cash equivalents, receivables and payables with a maturity period less than one year, short term borrowings and finance lease and hire purchase liabilities (current liabilities)</u>

The carrying amounts approximate the fair values due to the relatively short maturity of these financial instruments.

(ii) <u>Short term investments</u>

The fair value of the investment in money market fund is determined by reference to the quoted market price on the balance sheet date.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(v) Fair values (cont'd.)

(a) Financial instruments recognised on the balance sheet. (cont'd.)

(iii) Other investments

The fair value of quoted shares is based on the quoted market price at the balance sheet date.

The fair value of unquoted shares has been estimated using a valuation technique based on assumptions of certain dividend yield and discount rate that are supported by observable market prices or rates. Management believes that the estimated fair value resulting from the valuation technique is reasonable.

(iv) Borrowings and finance lease and hire purchase liabilities (non-current liabilities)

Borrowings are contracted at floating rates. Hence, the fair value of long term borrowings is assumed to approximate carrying amounts.

The fair value of finance lease and hire purchase liabilities is estimated by discounting the contractual cash flows at the current market rate available to the Group for similar instruments.

(b) Financial instruments not recognised on the balance sheet.
It is not practicable to estimate the fair values of contingent liabilities (disclosed in Note 33) reliably due to the uncertainties of timing, cost and eventual outcome.

36 SEGMENTAL REPORTING

(a) Primary reporting format – business segments

The Group is organised into four main business segments:

- Logistics engineering – manufacture and fabrication of road transport and material handling equipment and provision of related engineering support services.
- Machine shop – provision of machine shop services for tools and equipment used in the petroleum industry.
- Fleet management – provision of motor vehicles on a hire and drive basis.
- Bus / monorail – manufacture and supply of monorail trains / buses.

Intersegment revenue mainly comprises rendering of vehicle assembly services to other business segments which is based on negotiated terms.

36 SEGMENTAL REPORTING (CONT'D.)

2006	Logistics engineering RM'000	Machine shop RM'000	Fleet management RM'000	Bus / monorail RM'000	Eliminations RM'000	Group RM'000
Revenue						
Revenue from external customers	63,770	208,263	8,272	43,635	–	323,940
Intersegment revenue	–	–	–	24,938	(24,938)	–
Revenue	63,770	208,263	8,272	68,573	(24,938)	323,940
Results						
Segment results	(292)	39,664	1,384	5,402	–	46,158
Unallocated costs						(2,395)
Interest income						1,522
Interest expense	(677)	(2,051)	(900)	(561)	–	(4,189)
Profit before taxation						41,096
Tax expense						(10,888)
Profit for the financial year						30,208
Assets						
Segment assets	82,307	421,108	24,957	108,833	(65,341)	571,864
Unallocated corporate assets						52,831
Total assets						624,695
Liabilities						
Segment liabilities	54,581	132,711	19,690	48,168	(34,838)	220,312
Unallocated corporate liabilities						29,287
Total liabilities						249,599

36 SEGMENTAL REPORTING (CONT'D.)

2006	Logistics engineering RM'000	Machine shop RM'000	Fleet management RM'000	Bus / monorail RM'000	Group RM'000
Other information					
Capital expenditure	430	6,848	5,310	62,018	74,606
Depreciation of property, plant and equipment	809	3,130	3,697	926	8,562

2005

Comparative figures have not been presented by business segments in 2005 as the Group was principally a service provider in the design, manufacture, supply and installation of sound and communication systems prior to the cessation of the business operations and disposal of its subsidiary in Singapore during the previous financial year.

Unallocated costs represent corporate expenses. Segment assets consist of property, plant and equipment, intangible assets, inventories, receivables and cash and cash equivalents, and mainly excludes investments, deferred tax assets and tax recoverable. Segment liabilities comprise payables and excludes taxation.

Capital expenditure comprises additions to property, plant and equipment, intangible assets and includes additions resulting from acquisitions through business combinations.

(b) Secondary reporting format – geographical segments.

The Group operates in the following geographical areas:

- Malaysia* – provision of fleet management services, logistics engineering and bus/monorail activities.
  – provision of machine shop services.
- Singapore – provision of machine shop services.
- Other countries – provision of machine shop services.

* Company's home country

36 SEGMENTAL REPORTING (CONT'D.)

2006	Revenue from continuing operations RM'000	Total assets RM'000	Capital expenditure RM'000
Malaysia	132,536	394,721	69,491
Singapore	163,385	336,233	4,307
Other countries	28,019	27,948	808
Eliminations	–	(134,207)	–
	323,940	624,695	74,606

2005	Revenue from discontinued operations RM'000	Total assets RM'000	Capital expenditure RM'000
Malaysia	–	404,017	211,551
Singapore	918	281,968	44,138
Eliminations	–	(185,306)	–
	918	500,679	255,689

<u>Other information</u>

	Malaysia RM'000	Singapore RM'000	Group RM'000
Depreciation of property, plant and equipment	37	87	124
Other non cash expenses	3,857	1,242	5,099
Waiver of debt pursuant to the Composite Scheme of Arrangement	14,194	–	14,194

With the exception of the countries disclosed above, no other individual country contributed more than 10% of consolidated revenue or assets.

In determining the geographical segments of the Group, sales are based on the location of the production or service facilities. Total assets and capital expenditure are determined based on where the assets are located.

37 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) The Company previously carried out a scheme of arrangement pursuant to Section 176 of the Companies Act, 1965, (known hereafter as "the Composite Scheme of Arrangement").

As part of the Composite Scheme of Arrangement and pursuant to Section 178 of the Companies Act, 1965, all undertaking properties and assets (as defined in Section 178(5) of the Companies Act 1965) of the Company were transferred to and vested in Atlas Jade Sdn Bhd ("Atlas Jade"). There was no consideration received or paid by the Company for the Transfer of Undertaking and Property. All liabilities and obligations of the Company including all pending legal proceedings by or against the Company (save and except for those which were to be settled under the Composite Scheme of Arrangement) were to be assumed and continued by or against Atlas Jade respectively from the date of the Court's order. The cut-off date for all debts was fixed on 31 December 2004, such that all known and admitted debts outstanding as at that date were included in the Composite Scheme of Arrangement. Any subsequent charges, interests and penalty charges in relation to the known and admitted debts arising after 31 December 2004 that had not been included in the Composite Scheme of Arrangement were completely waived.

On 1 September 2005, the Court approved the Composite Scheme of Arrangement between the Company and the Scheme Creditors as stated in the Explanatory Statement dated 24 May 2005 pursuant to Section 176(3) at the Companies Act, 1965. Upon the completion of the Transfer of Undertaking and Property pursuant to the Composite Scheme of Arrangement, the Company waived debts amounting to RM14,194,000 which had been recognised in the income statement for the financial year ended 2005. The Transfer of Undertaking and Property also resulted in the Company recognising a gain on disposal of subsidiaries and loss on disposal of assets amounting to RM11,186,000 and RM2,744,000 respectively in the income statement for the financial year ended 31 December 2005.

Following the completion of the restructuring exercise as disclosed above, the Company had regularised its financial condition and consequently, its status as an affected listed issuer under PN 17/2005 was uplifted and the trading of the shares of the Company in Bursa Malaysia Securities Berhad recommenced on 26 January 2006.

(b) On 28 April 2006, the Company entered into an agreement to acquire 13,260,000 ordinary shares of RM1.00 each in MTrans Transportation Systems Sdn Bhd ("MTrans"), representing 51% of its issued and paid-up share capital, for a total purchase consideration of RM30 million which was settled in cash. MTrans has two wholly-owned subsidiaries, namely MTrans Technology Berhad and MTrans Bus Sdn Bhd (collectively known as the "MTrans Group").

On 10 July 2006, the acquisition was completed with all conditions precedent being met. On the same date, the Company and the vendor executed a Profit Guarantee Agreement and a Shareholders Agreement.

38 SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

(a) On 31 January 2007, the Company entered into a Share Sale Agreement to acquire a further 10,400,002 ordinary shares of RM1.00 each in MTrans, representing 40% of the issued and paid-up share capital in MTrans, for a total purchase consideration of RM25 million which is to be satisfied in cash ("Proposed Acquisition").

The Share Sale Agreement is conditional upon, amongst others, the fulfilment of the following conditions within 3 months of the date of the agreement or such other date as the parties mutually agree upon in writing:

(i) the approval of the Ministry of International Trade and Industry ("MITI") and also the Foreign Investment Committee ("FIC");
(ii) the approval of the noteholders of the holding company, Scomi Group Bhd;
(iii) the approval or consent of the financiers of MTrans Group, if required; and
(iv) the approval of the shareholders of the vendor at a general meeting, if required, for the disposal of the shares, and the approval of the board of directors of MTrans to the transfer of the shares.

On 3 April 2007, the Company announced that all conditions precedent have been satisfied and the parties to the agreement have agreed to complete the Proposed Acquisition on this day.

(b) On 23 February 2007, the Company announced that it proposes to reduce its share premium account ("Proposal"), pursuant to Section 64 of the Companies Act, 1965 by up to RM35.883 million, and to utilise the credit arising therefrom to reduce the accumulated losses of the Company.

The Proposal is subject to the following approvals:

(i) the shareholders of the Company at the Annual General Meeting;
(ii) the creditors of the Company, if required;
(iii) the sanction of the High Court of Malaya; and
(iv) any other relevant authorities or parties, if required.

(c) On 20 March 2007, the Company entered into a share sale agreement to dispose of 500,000 ordinary shares of RM1.00 each in Scomi Transportation Solutions Sdn Bhd ("SCOTS"), representing 100% of the issued and paid-up share capital of the company, for a total sale consideration of RM3.8 million to be satisfied in cash ("Proposed Disposal"). SCOTS has a wholly-owned subsidiary, Asian Rent-A-Car Sdn Bhd (collectively known as the "SCOTS Group").

The Proposed Disposal is conditional upon, amongst others, the fulfillment of the following conditions within 3 months of the share sale agreement subject to such extension as the parties may mutually agree:

(i) the approval of the FIC;
(ii) the approval of the shareholders of the Company (if required) for the disposal of the shares;
(iii) approval and consent of the financiers of the Group (if required);
(iv) the regulatory authorities issuing the licences and/or permits to the Group to conduct the business; and
(v) any other regulatory authorities.

The completion of the share sale agreement is also subject to the net equity in the SCOTS Group on completion date being at least zero or in the event the net equity is negative, the Company shall reimburse SCOTS an amount sufficient so that net equity is at least zero.

39 RESTATEMENT OF COMPARATIVE FIGURES

The list of new accounting standards, amendments to published standards and interpretations of existing standards that are effective for the Company's accounting periods beginning on or after 1 January 2006 is set out in Note 2.1 to the financial statements.

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

- Under FRS 3 – Business Combinations, any adjustment to the provisional fair values assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or cost of combination as a result of completing the initial accounting, shall be recognised within twelve months of the acquisition date. Comparative information presented for the periods before the initial accounting is complete shall be presented as if the initial accounting had been completed from the acquisition date. In the consolidated balance sheet of the Group, the following comparative figures have been restated for fair value adjustments after initial accounting for the business combination:

	31.12.2005 Group	
	As previously reported RM'000	**As restated RM'000**
Intangible assets (Note 19)	207,487	209,487
Receivables, deposits and prepayments (Note 21)	55,053	53,053

There were no effects on the Company's separate financial statements.

- Based on FRS 5 – Non-current Assets Held for Sale and Presentation of Discontinued Operations, comparative figures in relation to the discontinued operations of the Group and the Company in respect of the previous financial year have been reclassified to reflect the discontinued activities. These changes in comparatives are further disclosed in Note 5 to the financial statements.

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 19 April 2007.

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Datuk Zainun Aishah binti Ahmad and Shah Hakim @ Shahzanim bin Zain, being two of the Directors of Scomi Engineering Bhd, state that, in the opinion of the Directors, the financial statements set out on pages 47 to 116 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2006 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.

Signed on behalf of the Board of Directors in accordance with their resolution dated 19 April 2007.

DATUK ZAINUN AISHAH BINTI AHMAD
Director

SHAH HAKIM @ SHAHZANIM BIN ZAIN
Director

Kuala Lumpur

STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

Scomi Engineering Bhd • Annual Report 2006

I, Gregory Jerome Gerald Fernandes, being the officer primarily responsible for the financial management of Scomi Engineering Bhd, do solemnly and sincerely declare that the financial statements set out on pages 47 to 116 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the)
abovenamed Gregory Jerome Gerald Fernandes) **GREGORY JEROME GERALD FERNANDES**
at Kuala Lumpur on 19 April 2007,)

Before me.

Commissioner for Oaths
No. W315
SOH AH KAU, AMN

REPORT OF THE AUDITORS

TO THE MEMBERS OF SCOMI ENGINEERING BHD (Company No. 111633-M) (Incorporated in Malaysia)

We have audited the financial statements set out on pages 47 to 116. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:
   (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
   (ii) the state of affairs of the Group and Company as at 31 December 2006 and of the results and cash flows of the Group and Company for the financial year ended on that date;

and

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

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 17 to the financial statements. We have considered the audited financial statements of these subsidiaries and the auditors' reports thereon.

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

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/08 (J))
Partner of the firm

Kuala Lumpur
19 April 2007

ANALYSIS OF SHAREHOLDINGS

Share Capital as at 30 April 2007

Authorised Share Capital	:	RM400,000,000.00 divided into 400,000,000 ordinary shares of RM1.00 each
Issued and Paid-Up Capital	:	RM271,204,067.00 divided into 271,204,067 ordinary shares of RM1.00 each
Types of Shares	:	Ordinary share of RM1.00 each
Voting Rights	:	One vote per ordinary share

Distribution of Shareholdings as at 30 April 2007

	Shareholders		Shareholding	
Size of Shareholdings	**No. of Holders**	**% of Holders**	**No. of Shares**	**% of Shares**
Less than 100	35	2.09	147	0.00
100 to 1,000	612	36.52	369,500	0.14
1,001 to 10,000	735	43.85	3,322,656	1.23
10,001 to 100,000	230	13.72	7,256,559	2.68
100,001 to less than 5% of issued shares	62	3.70	71,498,828	26.36
5% and above of issued shares	2	0.12	188,756,377	69.60
Total	**1,676**	**100.00**	**271,204,067**	**100.00**

Substantial Shareholders as at 30 April 2007

	Direct Shareholding		Indirect Shareholding	
Substantial Shareholders	**No. of Shares**	**% of Shares**	**No. of Shares**	**% of Shares**
Scomi Group Bhd	192,567,567	71.00	–	–
Kaspadu Sdn Bhd	–	–	192,567,567	71.00
Shah Hakim @ Shahzanim bin Zain	–	–	192,567,567	71.00
Dato' Kamaluddin bin Abdullah	–	–	192,567,567	71.00

Thirty Largest Registered Shareholders as at 30 April 2007

No.	Registered Shareholders	No. of Shares	% of Shares
1.	Scomi Group Bhd	172,575,387	63.63
2.	ECM Libra Avenue Nominees (Tempatan) Sdn Bhd Lee Hishammuddin Allen & Gledhill for Scomi Group Bhd (A/C No. 2)	16,180,990	5.97
3.	Bara Aktif Sdn Bhd	8,949,000	3.30
4.	Eagletron Venture Corp.	8,489,000	3.13
5.	HSBC Nominees (Asing) Sdn Bhd Densfield Capital Corp	5,954,800	2.20
6.	HSBC Nominees (Asing) Sdn Bhd Exempt An for Credit Suisse (SG BR-TST-Asing)	5,149,700	1.90
7.	Nik Awang @ Wan Azmi Bin Wan Hamzah	5,075,714	1.87
8.	HSBC Nominees (Tempatan) Sdn Bhd Nomura Asset Mgmt SG for Employees Provident Fund	4,436,100	1.64
9.	ECM Libra Avenue Nominees (Tempatan) Sdn Bhd Lee Hishammuddin Allen & Gledhill for Scomi Group Bhd (A/C No. 1)	3,811,190	1.41
10.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LGF)	3,208,400	1.18
11.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LPF)	2,879,400	1.06
12.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (DR)	1,812,800	0.67
13.	Chew Keat Soon	1,726,300	0.64
14.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for OSK-UOB Small Cap Opportunity Unit Trust (3548)	1,565,700	0.58
15.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for The Hwang-DBS Select Opportunity Fund (3969)	1,400,000	0.52
16.	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB-Principal Asset Management Berhad for Employees Provident Fund Board	1,086,800	0.40
17.	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Tiong Young Kong (MM1112)	784,100	0.29
18.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LSF)	764,200	0.28
19.	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tiong Young Kong	755,100	0.28
20.	HSBC Nominees (Asing) Sdn Bhd TNTC for DBS Malaysia Equity Fund	700,000	0.26
21.	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Mohammad Abdus Salim Bin S Cassim	656,900	0.24

No.	Registered Shareholders	No. of Shares	% of Shares
22.	Southern Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Nik Awang @ Wan Azmi Bin Wan Hamzah	653,000	0.24
23.	Wong Chock Faa	641,839	0.24
24.	Foong Seng	620,662	0.23
25.	Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Saham Amanah Sabah (ACC 2-940410)	589,000	0.22
26.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LBF)	513,800	0.19
27.	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Haris Onn Bin Hussein (MM0614)	513,400	0.19
28.	Hew Su Yen	510,800	0.19
29.	Ee Bee Pheng	500,000	0.18
30.	Hew Tet Ken	489,200	0.18

Directors' Shareholdings as at 30 April 2007

The Directors' interest in shares in the Company and its related companies as at 30 April 2007 are as follows:

	Nominal Value Per Ordinary Share	Direct Interest			Indirect Interest	
		No. of Shares	% of Shares	No. of Options	No. of Shares	% of Shares
The Company						
Datuk Zainun Aishah binti Ahmad	RM1.00	–	–	1,000,000 #	–	–
Dato' Abdul Rahim bin Abu Bakar	RM1.00	–	–	600,000 #	–	–
Edlin bin Ghazaly	RM1.00	–	–	600,000 #	–	–
Fad'l bin Mohamed	RM1.00	–	–	600,000 #	–	–
Shah Hakim @ Shahzanim bin Zain	RM1.00	–	–	2,000,000 #	192,567,567	71.00
Related Companies						
Shah Hakim @ Shahzanim bin Zain *						
Scomi Group Bhd	RM0.10	1,589,100	0.16	7,356,500 **	345,337,025	34.48

Notes:-

\# Options granted pursuant to the Company's Employees' Share Options Scheme to subscribe for ordinary shares in the Company.

** Options granted pursuant to Scomi Group Bhd's ("SGB") Employees' Share Options Scheme to subscribe for ordinary shares in SGB.

* By virtue of his interests in the shares and options in SGB, the holding company of the Company, as disclosed above, he is deemed to have an interest in shares in all the subsidiaries of SGB.

LIST OF PROPERTIES

AS AT 31 DECEMBER 2006

Registered Owner	Description/ Location Address	Existing Use	Tenure of land: ie. freehold or Leasehold (years)/ Date of Acquisition	Land area/ Built-up area	Approximate age of building	Audited net book value as at 31.12.2006 (RM'000)
Scomi OMS Oilfield Services Pte Ltd	Land (Lot 926C Mukim 7) and Leasehold Building: 48 Gul Circle Singapore 629581	Workshop/Office	Leasehold (remaining 11 (eleven) years 7 months, until 2018) 01.01.1978	Land area: 150,388 sq ft Built up area: 28,772 sq ft	19 years	Building: 1,949 Land: —
Scomi OMS Oilfield Holdings Sdn Bhd (formerly known as OMS Oilfield Holdings Sdn Bhd)	Vacant industrial land: Jalan Arsat Federal Territory of Labuan	sub-let	Leasehold for 999 years (until 2868) 28.06.1984	1,821 sq metres	N/A	Land: 173
OMS Oilfield Services Sdn Bhd (formerly known as OMS Oilfield Services Sdn Bhd)	Vacant industrial land: Jalan Arsat Federal Territory of Labuan	sub-let	Leasehold for 999 years (until 2868) 27.06.1984	2,023 sq metres	21 years	Land: 193
PT OMS Oilfield Services	Land: Jl. Mulawarman, RT 022 RW 07, Sepinggan Balikpapan Selatan, Kalimantan, Indonesia	Workshop, Office and staff house	Leasehold for 20 years (until 24.09.2026) for Office and 7 years for staff house	7,467 sq meters for workshop, office and 2,440 sq meters for staff house	N/A	Land: 2,591
PT OMS Oilfield Services	Building: Jl. Mulawarman, RT 022 RW 07, Sepinggan Balikpapan Selatan, Kalimantan, Indonesia	Workshop, Office and staff house	Leasehold for 20 years (until 13.03.2012) and 7 years for staff house	2,291 sq metres for workshop, office and 343 sq meter for staff house	9 years	Building: 893
MTrans Bus S/B	Land and Building: EMR 2751 Lot 795 and EMR 2616 Lot 796 Mukim Serendah, Daerah Hulu Selangor	Factory and Office	Freehold 15.04.1996	Land area: 61,714 sq metres Built-up area: 14,056 sq metres	10 years	Building: 10,596 Land: 8,020

CORPORATE DIRECTORY

SCOMI SDN BHD
Lot 519 Jalan TUDM
Kg Baru Subang, 40000 Shah Alam
Selangor Darul Ehsan, Malaysia
Tel : +603 – 7846-4516
Fax : +603 – 7846-4521

SCOMI TRANSPORTATION SOLUTIONS SDN BHD
Asian Rent-A-Car

Main Rental Office
No 1-1 Block C1, Dataran Prima
Jalan PJU 1/41, 47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel : +603 – 7494-9802
Fax : +603 – 7494-9801

Penang Contact Centre
62, 2nd Floor, Jalan Perai Jaya 2
Bandar Perai Jaya, 13700 Prai
Butterworth
Tel : +604 – 3977-787
Fax : +604 – 3977-076

Kuantan Rental Office
Lot 8, Public Concourse
Sultan Ahmad Shah Airport, Kuantan
Pahang Darul Makmur, Malaysia
Tel : +609 – 5398-641
Fax : +609 – 5398-096

Johor Contact Centre
52-B, Jalan Ronggeng 11
Taman Skudai Baru
81300 Skudai, Johor
Tel : +607 – 5540-453
Fax : +607 – 5541-453

MTRANS BUS
Lot 795, Jalan Monorel
Sungai Choh, Rawang
48000 Selangor Darul Ehsan
Malaysia
Tel : +609 – 6092-3888
Fax : +609 – 6091-9203

MTRANS TECH
10th Floor, Wisma Chase Perdana
Off Jalan Semantan, Damasara Heights
50490 Kuala Lumpur, Malaysia
Tel : +603 – 2080-5080
Fax : +603 – 2080-6328

MACHINE SHOP LOCATIONS

Corporate
Scomi OMS Oilfield Services (Malaysia) Sdn Bhd
(formerly known as OMS Oilfield Services (Malaysia) Sdn Bhd)
Suite No. 3A.1, 3A Floor
Wisma Chase Perdana
Off Jalan Semantan
Damansara Heights
50490 Kuala Lumpur, Malaysia
Tel : +603 – 2094-8566
Fax : +603 – 2080-6333

Australia (Darwin)
OMS Oilfield Services (Australia) Pty Ltd
P.O. Box 3600 Palmerston
1702 McKinnon Road
Pinelands, Berrimah 0829
Northern Territory, Australia
Tel : +618 – 8939-0900
Fax : +618 – 8932-3738

Brunei Darussalam
PY Oiltools Sdn Bhd
Lot 3866, Jalan Sungai Pandan
Kuala Belait KA 1931
Brunei Darussalam
Tel : +673 – 333-976
Fax : +673 – 333-160

Indonesia (Balikpapan)
P.T. OMS Oilfield Services
Jalan Mulawarman
Rt. 23 Rw. 08 No.115
Balikpapan 76115
East Kalimantan, Indonesia
Tel : +6254 2 – 770-082
Fax : +6254 2 – 770-084

Malaysia (Kemaman)
OMS Oilfield Services (Malaysia) Sdn Bhd
Warehouse 14, Door No. 1
Kemaman Supply Base
24007 Kemaman, Terengganu
Malaysia
Tel : +609 – 863-1948
Fax : +609 – 863-1830

Malaysia (Labuan)
OMS Oilfield Services (Malaysia) Sdn Bhd
Asian Supply Base
Ranca-Ranca Industrial Estate
P.O. Box 80823
87018 Labuan F.T., Malaysia
Tel : +6087 – 413-923
Fax : +6087 – 416-281

Thailand (Songkhla)
OMS Oilfield Services (Thailand) Ltd
428 Kho-Yor Road
Tambol Phawang, Amphur Muang
Songkhla 90100, Thailand
Tel : +6674 – 333-882
Fax : +6674 – 333-421

Singapore
Scomi OMS Oilfield Services Pte Ltd
No. 48 Gul Circle
Jurong, Singapore 629581
Republic of Singapore
Tel : +65 – 6861-2677
Fax : +65 – 6862-2719

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 23rd Annual General Meeting of **SCOMI ENGINEERING BHD** (the "Company") will be held at Banquet Hall, Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Thursday, 21st June 2007 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS:

To consider, and if thought fit, to pass the following as Ordinary Resolutions:

1. To receive and adopt the Financial Statements for the financial year ended 31 December 2006 and the Reports of the Directors and Auditors thereon. RESOLUTION 1

2. To approve the declaration of a first and final tax exempt dividend of 3 sen per ordinary share for the financial year ended 31 December 2006. RESOLUTION 2

3. To re-elect the following Directors who are retiring pursuant to Article 80 of the Articles of Association of the Company:
   (i) Encik Edlin Bin Ghazaly RESOLUTION 3
   (ii) Encik Fad'l Bin Mohamed RESOLUTION 4

4. To re-elect Dato' Nordin Bin Baharuddin who is retiring pursuant to Article 87 of the Articles of Association of the Company. RESOLUTION 5

5. To approve the payment of Directors' fees for the financial year ended 31 December 2006. RESOLUTION 6

6. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. RESOLUTION 7

7. To transact any other ordinary business of the Company for which due notice shall have been given. RESOLUTION 8

AS SPECIAL BUSINESS:

To consider and, if thought fit, to pass the following as Ordinary Resolution:

8. **Authority to Allot and Issue Shares Pursuant to Section 132D of the Companies Act, 1965** RESOLUTION 9

   "THAT, subject to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental and/or regulatory authorities where necessary, the Directors be and are hereby authorised, pursuant to Section 132D of the Companies Act, 1965, to allot and issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one year does not exceed ten percent (10%) of the issued and paid-up share capital of the Company at any time and that the Directors be and are hereby further authorised to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

By Order of the Board

CHONG MEI YAN (MAICSA 7047707)
KUOK YEW LEE (MAICSA 7052080)
Company Secretaries

Kuala Lumpur
Date : 30 May 2007

Note 1 : Appointment of Proxy

(i) A member of the Company entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and vote on his/her behalf. A proxy may but need not be a member of the Company.

(ii) Where a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding to be represented by each proxy.

(iii) Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares standing to the credit of the said securities account.

(iv) The instrument appointing a proxy, in the case of an individual shall be signed by the appointer or his/her attorney duly authorised in writing and in the case of a corporation, either under seal or under the hand of an officer duly authorised. If no name is inserted in the space for the name of your proxy, the Chairman of the Meeting will act as your proxy.

(v) The instrument appointing a proxy must be completed and deposited at the office of the Share Registrar of the Company, Symphony Share Registrars Sdn Bhd at Level 26, Menara Multi Purpose, Capital Square, No. 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.

Note 2 : Explanatory Note on Item 8 of the Agenda (Resolution 9)

The ordinary resolution under Item 8 above is proposed pursuant to Section 132D of the Companies Act, 1965, and if passed, will give the Directors of the Company from the date of the above Annual General Meeting, authority to issue and allot shares from the unissued share capital of the Company for such purposes as the Directors deem fit and in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

STATEMENT ACCOMPANYING NOTICE OF 23RD ANNUAL GENERAL MEETING

1. DIRECTORS STANDING FOR RE-ELECTION AT THE TWENTY-THIRD ANNUAL GENERAL MEETING OF THE COMPANY

Details of Directors standing for re-election are as follows:

Name of Director	Director's Profile
	(page number in this Annual Report)
Encik Edlin Bin Ghazaly	please refer to pages 20 and 23
Encik Fad'l Bin Mohamed	please refer to pages 20 and 23
Dato' Nordin Bin Baharuddin	please refer to pages 20 and 23

2. DETAILS OF DIRECTORS' ATTENDANCE AT BOARD MEETINGS

A total of eight (8) Board Meetings were held during the financial year ended 31 December 2006.

Name of Director	No. of Meetings Attended
Datuk Zainun Aishah Binti Ahmad	8/8
Dato' Abdul Rahim Bin Abu Bakar	7/8
Edlin Bin Ghazaly	8/8
Fad'l Bin Mohamed	7/8
Shah Hakim @ Shahzanim Bin Zain	8/8
Dato' Nordin Bin Baharuddin (appointed on 18 January 2007)	–
Gregory Jerome Gerald Fernandes (resigned w.e.f 18 July 2006)	5/5

3. DETAILS OF DATE, TIME AND PLACE OF TWENTY-THIRD ANNUAL GENERAL MEETING

The Twenty-Third Annual General Meeting of Scomi Engineering Bhd will be held as follows:

Date : 21st June 2007

Time : 10:00 a.m.

Place : Banquet Hall, Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur.

FORM OF PROXY

No. of Ordinary Shares Held

SCOMI ENGINEERING BHD
(Company No: 111633-M)
(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office: Suite 5.03, 5th Floor, Wisma Chase Perdana, Off Jalan Semantan, Damansara Heights, 50490 Kuala Lumpur, Malaysia

I/We ______________________________ NRIC/Passport No ______________
(Full name)

of ______________________________
(Full address)

being a member/members of **Scomi Engineering Bhd**, hereby appoint ______________________________
(Full name and NRIC / Passport No.)

of ______________________________
(Full address)

or failing him/her ______________________________
(Full name)

of ______________________________
(Full address)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the 23rd Annual General Meeting ("AGM") of Scomi Engineering Bhd. (the "Company") to be held at Banquet Hall, Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Thursday, 21st June 2007 at 10.00 a.m., or any adjournment thereof.

Ordinary Business		For	Against
Resolution 1	To receive and adopt the Financial Statements for the financial year ended 31st December 2006 and the Reports of the Directors and Auditors thereon.		
Resolution 2	To approve the declaration of a first and final tax exempt dividend of 3 sen per ordinary share for the financial year ended 31st December 2006.		
	To re-elect the following Directors who are retiring pursuant to Article 80 of the Articles of Association of the Company:		
Resolution 3	(i) Encik Edlin Bin Ghazaly		
Resolution 4	(ii) Encik Fad'l Bin Mohamed		
Resolution 5	To re-elect Dato' Nordin Bin Baharuddin who is retiring pursuant to Article 87 of the Articles of Association of the Company.		
Resolution 6	To approve the payment of Directors' fees for the financial year ended 31 December 2006.		
Resolution 7	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.		
Resolution 8	To transact any other ordinary business of the Company for which due notice shall have been given.		
Special Business		**For**	**Against**
Resolution 9	Authority to Allot and Issue Shares Pursuant to Section 132D of the Companies Act, 1965.		

Please indicate with a check mark ("✓") in the space provided to show how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

Dated this................day of......................................2007 Signature/Seal..

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Notes:

(i) A member of the Company entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and vote on his/her behalf. A proxy may but need not be a member of the Company.

(ii) Where a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding to be represented by each proxy.

(iii) Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares standing to the credit of the said securities account.

(iv) The instrument appointing a proxy, in the case of an individual shall be signed by the appointer or his/her attorney duly authorised in writing and in the case of a corporation, either under seal or under the hand of an officer duly authorised. If no name is inserted in the space for the name of your proxy, the Chairman of the Meeting will act as your proxy.

(v) The instrument appointing a proxy must be completed and deposited at the office of the Share Registrar of the Company, Symphony Share Registrars Sdn Bhd at Level 26, Menara Multi Purpose, Capital Square, No. 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.

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AFFIX
STAMP

The Registrar of Scomi Engineering Bhd
Symphony Share Registrars Sdn. Bhd.
Level 26, Menara Multi Purpose
Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur

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