

PART B

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

DEFINITIONS

Except where the context otherwise indicates, the following definitions shall apply throughout this Circular:

“Act”	:	Companies Act, 1965, as amended from time to time and any re-enactment thereof
“AGM”	:	Annual General Meeting
“ARMC”	:	Audit Risk and Management Committee
“Board”	:	Board of Directors
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“Code”	:	Malaysian Code on Take-Overs and Mergers 1998 and any amendments thereof
“Dato Kamal”	:	Dato’ Kamaluddin Bin Abdullah
“Director”	:	Shall have the meaning given in Section 2 of the Capital Markets and Service Act 2007 and/or Section 4 of the Act and includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon, a Director of the Company or any other company which is its subsidiary or holding company or a chief executive officer of the Company, its subsidiary or holding company
“ESOS”	:	Employees’ Share Option Scheme
“FYE”	:	Financial year ended
“Kaspadu”	:	Kaspadu Sdn Bhd (259131-V)
“Listing Requirements”	:	The Main Market Listing Requirements of Bursa Securities including any amendments made in respect thereof from time to time
“Major Shareholder”	:	A person who has an interest or interests in one or more voting shares in the Company and the nominal amount of that share or the aggregate of the nominal amounts of those shares, is: (c) ten percent (10%) or more of the aggregate of the nominal amounts of all the voting shares in the Company; or (d) five percent (5%) or more of the aggregate of the nominal amounts of all the voting shares in the Company where such person is the largest shareholder of the Company Includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed issuer as defined above or any other corporation which is its subsidiary or holding company.

For the purpose of this definition, “interest in shares” has the meaning given in Section 6A of the Act.

DEFINITIONS (CONT'D)

“Onstream”	:	Onstream Marine Sdn Bhd (246310-T)
“Proposed Renewal of Shareholders’ Mandate”	:	Proposed renewal of shareholders’ mandate for RRPT to be entered into by the Group from the date of the forthcoming AGM to the next AGM
“Purchased Shares”	:	Shares purchased pursuant to the Proposed Share Buy-Back
“RRPT(s)”	:	Related Party Transaction(s) involving recurrent transactions of a revenue or trading nature that are necessary for the day-to-day operations and are in the ordinary course of business of the Company or its subsidiaries
“Related Party(ies)”	:	Director(s), Major Shareholder(s) or person(s) connected to such Director or Major Shareholder of the Company
“Related Party Transaction(s)”	:	Transaction(s) entered into by the Company or its subsidiaries which involves the interest, direct or indirect, of a Related Party
“RM”	:	Ringgit Malaysia
“SEB” or “Company”	:	Scomi Engineering Bhd (111633-M)
“SEB Group” or “Group”	:	SEB and its subsidiaries, collectively
“SEB Share(s)” or “Share(s)”	:	Ordinary share(s) of RM1.00 each in SEB
“SGB”	:	Scomi Group Bhd (571212-A)
“Shah Hakim”	:	Shah Hakim @ Shahzanim bin Zain

Any references to “our Company” or “SEB” in this Circular are to Scomi Engineering Bhd, references to “our Group” are to our Company and its subsidiaries and references to “we”, “us”, “our” and “ourselves” are to our Company, and save where the context otherwise requires, and its subsidiaries.

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Scomi

SCOMI ENGINEERING BHD

(Company No: 111633-M)

(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:-
Level 17, 1 First Avenue
Bandar Utama, 47800
Petaling Jaya, Selangor
Malaysia

3 June 2011

Board:-

Datuk Zainun Aishah binti Ahmad (*Independent Non-Executive Chairman*)
Dato' Abdul Rahim bin Abu Bakar (*Independent Non-Executive Director*)
Encik Edlin bin Ghazaly (*Independent Non-Executive Director*)
Encik Fad'l bin Mohamed (*Independent Non-Executive Director*)
Encik Abdul Hamid bin Sheikh Mohamed (*Independent Non-Executive Director*)
Encik Shah Hakim@ Shahzanim bin Zain (*Non-Independent Executive Director*)

To our Shareholders

Dear Sir/ Madam

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RRPT

1. INTRODUCTION

At the 26th AGM of the Company held on 28 June 2010, the Company obtained a general mandate from its shareholders for the Company to enter into RRPT.

The said authority is subject to annual renewal and will lapse at the conclusion of the forthcoming AGM, unless renewed by the shareholders.

On 5 May 2011, our Board announced that our Company will be seeking shareholders' approval for Proposed Renewal of Shareholders' Mandate.

This Circular provides you with the details of the Proposed Renewal of Shareholders' Mandate and to seek your approval for the resolution thereto to be tabled at the forthcoming 27th AGM to be held at Ballroom 3, 1st Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur, on Tuesday, 28 June 2011 at 10.00 a.m.

YOU ARE ADVISED TO READ THE CONTENTS OF THIS CIRCULAR CAREFULLY BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE TO BE TABLED AT THE FORTHCOMING AGM.

2. DETAILS OF THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE

SEB is seeking approval from our shareholders for the Proposed Renewal of Shareholders' Mandate that will allow our Group to enter into RRPT as set out in Section 2.2 in Part B of this Circular. The RRPT are at arm's length, on our Group's normal commercial terms that are not more favourable than those generally available to the public and are not to the detriment of minority shareholders.

2.1 Group Principal Activities

SEB is principally involved in investment holding, provision of the management services to its subsidiaries and the design, manufacture and supply of monorail trains and related services. The principal activities of our Group comprise the design and manufacture of monorail transportation infrastructure systems equipment and services, commercial coaches and special purpose vehicles. Details of SEB's subsidiaries' principal activities are set out below:

Name of company	Principal activities
Subsidiaries of SEB	
Scomi Special Vehicles Sdn Bhd	Manufacture and fabrication of road transport equipment, material handling equipment and provision of related engineering support services
Scomi Transportation Systems Sdn Bhd	Investment holding
Urban Transit Private Limited	Engage in the business of development, manufacturing and supply of monorail transportation infrastructure systems equipments and services
Scomi Transit Projects Sdn Bhd	Engage in the business of development, manufacture and supply of monorail transportation infrastructure systems equipment and services
Scomi OMS Oilfield Services Ltd	Investment holding
Subsidiary of Scomi Special Vehicles Sdn Bhd	
Scomi Trading Sdn Bhd	Marketing agent for road transport equipments and related products
Subsidiaries of Scomi Transportations Systems Sdn Bhd	
Scomi Rail Bhd	Design, manufacture and supply of monorail trains and related services
Scomi Coach Sdn Bhd	Manufacturing, fabrication and assembly of commercial coaches and truck vehicle bodies
Subsidiary of Scomi Coach Sdn Bhd	
Scomi Coach Marketing Sdn Bhd	Marketing agent for commercial coaches and truck vehicle bodies

2.2 Proposed Renewal of Shareholders' Mandate for RRPT

Shareholders' approval is sought for the Proposed Renewal of Shareholders' Mandate by our Group as set out below:

Transactions Between		Nature of Transaction	Existing Shareholders' Mandate		Proposed Renewal of Shareholders' Mandate
Our Group	Related Party		*Estimated value during validity period of mandate (RM)	Actual value transacted during the validity period of mandate (RM)	** Proposed estimated value (RM)
SEB	SGB	Service Level Agreement entered into between SEB and SGB - Support Services provided by SGB	1,995,000	1,723,000	1,945,000

Notes:

* The estimated value of the transaction as disclosed in the Company's preceding year's Circular to Shareholders dated 4 June 2010.

** The estimated value of the transaction from the date of the forthcoming AGM to the next AGM is based on management estimates. Due to the nature of transactions, the actual value of the transactions may vary from the estimated values disclosed.

¹ SEB is a 67.36% owned subsidiary of SGB as at 29 April 2011.

² Shah Hakim is the Chief Executive Officer of SGB and an Executive Director of SEB. Shah Hakim is deemed interested by virtue of Section 6A(4) of the Act through his shareholding in Kaspadu, which in turn is deemed interested in SEB. Shah Hakim also holds options granted by SGB and SEB under their respective ESOS.

³ Kaspadu is deemed interested by virtue of Section 6A(4) of the Act through its shareholding in Onstream and its direct and indirect shareholdings in SGB, which in turn is deemed interested in SEB.

⁴ Onstream is deemed interested by virtue of Section 6A(4) of the Act through its shareholding in SGB, which in turn is deemed interested in SEB.

⁵ Dato' Kamal is deemed interested by virtue of Section 6A(4) of the Act through his shareholding in Kaspadu, which in turn is deemed interested in SEB.

2.3 Approval Thresholds for RRPT

Approval thresholds for RRPT are consistent and similar to the delegated authority limits for non-related party transactions of the Company as follows:-

- (a) RRPT up to USD50,000 each in value will be reviewed and approved by the President (not being a person connected to the Related Party).
- (b) RRPT exceeding USD50,000 and less than USD250,000 each in value will be reviewed and approved jointly by the President and Designated SGB Officer (not being persons connected to the Related Party).
- (c) RRPT exceeding USD250,000 each in value will be reviewed and approved by the SGB Chief Executive Officer (“SGB CEO”). If the SGB CEO has an interest in the RRPT, the RRPT will be reviewed by the ARMC and approved by the Board.

The Company has established the delegated authority limits based on budgeted transactions, duly approved by the Board, which governs the approval process and approving authority within the Group. Where such transactions are also Related Party Transactions or RRPT, the Company shall additionally adhere to the Review Procedures set out in paragraph 2.4 below and the Listing Requirements.

2.4 Review Procedures and Disclosure for RRPT

With regards to RRPT which are contemplated under the Mandate, to ensure that the transaction prices and terms are not more favourable to the Related Party than those generally available to the public and are not to the detriment of the minority shareholders, SEB has implemented the following review and disclosure procedures:

- (a) The relevant employees of the Group will be notified of the identities of the Related Parties and will be required, prior to entering into such transactions, to ensure that all the RRPT are consistent with the Group’s normal business practices and policies, and on usual commercial terms, and otherwise in accordance with applicable industry norms.
- (b) The transaction prices and terms are determined based on the prevailing market rates which are determined by market forces, demand and supply, specifications and other relevant factors. In relation to the administrative services to be provided by SGB to the Group, the method of pricing is based on the estimated cost to be incurred by SGB to provide the administrative services to the Group.

Where practical and feasible, at least 2 other contemporaneous transactions with unrelated third parties for the same or substantially similar products or services will be used as comparison to determine whether the price and terms offered to/by the Related Parties are fair and reasonable and comparable to those offered to/by the other unrelated third parties for the same or substantially similar products or services. Where it is impractical or impossible for quotes and/or tenders to be obtained from unrelated parties, or where there has not been any similar or substantially similar transactions between the Group and unrelated third parties, the terms of the transactions for the products and services will be in accordance with applicable industry norms, prevailing commercial rates and at rates not more favourable to the Related Parties than those generally available to the public and is not detrimental to SEB Group.

- (c) All RRPT will be reviewed monthly by the Company’s Finance Department together with the Legal/ Secretarial Department to ensure they are within the shareholders’ mandate obtained.
- (d) Records will be maintained by the Company’s Finance Department to capture all RRPT which are entered into pursuant to the Proposed Renewal of Shareholders’ Mandate.
- (e) The ARMC will review the Management’s report on a quarterly basis to ascertain that the relevant procedures, guidelines and policies established to monitor the RRPT have been complied with.

- (f) The ARMC and the Board will have the overall responsibility for the determination of the review procedures, including additions or variations thereto, where applicable.
- (g) Disclosure will be made in the Annual Report of the Company on the aggregate value of the RRPT conducted pursuant to the Proposed Renewal of Shareholders' Mandate based on the type, the names of the Related Parties involved and their relationship with our Company. Disclosure will be made in the Annual Report for subsequent financial years during the period the Proposed Shareholders' Mandate remains in force.

If any member of the ARMC or the Board has an interest in a RRPT, he shall abstain from voting on any matter relating to any decisions to be undertaken by the ARMC or the Board with respect to such transactions.

Further, where any Director or person connected with such Director has an interest (direct or indirect) in any RRPT, such Director (or his alternate, where applicable) or person connected with such Director shall abstain from voting on the matter. Where any member of our Company's ARMC is interested in any transaction, that member shall abstain from voting on any matter relating to any decisions by the ARMC with respect to such transactions.

In a general meeting to obtain the Proposed Renewal of Shareholder's Mandate, an interested Director, interested Major Shareholder or interested persons connected with a Director or Major Shareholder shall abstain from voting on the resolution approving the relevant transaction.

The Proposed Renewal of Shareholders' Mandate, if approved at the forthcoming AGM, shall continue to be in force until the next AGM. Thereafter, shareholders' approval will be sought for the renewal of such mandate at each subsequent AGM, subject to a satisfactory review by the ARMC of its continued application to RRPT.

2.5 Statement by the Company's ARMC

The ARMC is of the opinion that the review procedures stated in Sections 2.3 and 2.4 of this Circular are sufficient and satisfactory to ensure that the RRPT are carried out on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of our Company.

The Group has in place, adequate procedures and processes to monitor, track and identify RRPT in a timely and orderly manner. The ARMC conducts the review of these procedures and processes on an annual basis.

2.6 Validity Period

The Proposed Renewal of Shareholders' Mandate, if approved by our shareholders at the forthcoming AGM, will take effect from the date of passing of the proposed ordinary resolutions at the AGM and shall continue to be in force until:

- (a) the conclusion of the next AGM of our Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (b) the expiration of the period within which the next AGM subsequent to the date it is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is earlier.

Thereafter, if our Board decides that the renewal of the Proposed Renewal of Shareholders' Mandate is required, shareholders' approval for such renewal will be sought at each subsequent AGM of our Company.

3. RATIONALE AND BENEFIT FOR THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE

The rationale and benefit for the Proposed Shareholders' Mandate are as follows:

- (a) the provision of non-core support services from SGB will enable SEB to focus on its core operations in providing it with a more efficient and cost effective solution;
- (b) to facilitate transactions with Related Parties which are in the ordinary course of business of our Group undertaken at arm's length, on normal commercial terms and on terms which are not more favourable to the Related Parties than those generally available to the public and are not detrimental to the interests of minority interests;
- (c) to enable our Group to transact with the Related Parties in an expeditious manner to meet business needs that are necessary for its day-to-day operations; and
- (d) to reduce administrative time, inconvenience and expenses associated with the convening of a separate meeting for approval of each Related Party Transaction, without compromising the corporate objectives of the Group or adversely affecting the business opportunities available to our Group.

4. APPROVALS REQUIRED

The Proposed Renewal of Shareholders' Mandate is conditional upon the approval of the shareholders of the Company being obtained at the forthcoming AGM to be convened.

5. DIRECTORS' AND MAJOR SHAREHOLDERS' AND CONNECTED PERSONS' INTERESTS

The shareholdings of the interested directors, major shareholders and persons connected to them in relation to the RRPT are as follows:

Interested Party	SEB				SGB			
	Direct		Indirect		Direct		Indirect	
	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares
SGB	67.36	192,567,567	-	-	-	-	-	-
Kaspadu	-	-	67.36	192,567,567 ⁽¹⁾	7.32	85,753,055 ⁽³⁾	7.39	86,521,970 ⁽⁴⁾⁽⁵⁾
Onstream	-	-	67.36	192,567,567 ⁽¹⁾	7.39	86,521,970 ⁽⁵⁾	-	-
Dato' Kamal	-	-	67.36	192,567,567 ⁽²⁾	-	-	14.71	172,275,025 ⁽⁶⁾
Shah Hakim	0.17	500,000	67.36	192,567,567 ⁽²⁾	0.04	529,100	14.71	172,275,025 ⁽⁶⁾

Notes:

- ⁽¹⁾ Deemed interested by virtue of Section 6A(4) of the Act through its interest in SGB, which in turn is deemed interested in SEB.
- ⁽²⁾ Deemed interested by virtue of Section 6A(4) of the Act through his shareholding in Kaspadu, which in turn is deemed interested in SGB.
- ⁽³⁾ 80,825,000 shares held through RHB Capital Nominees (Tempatan) Sdn Bhd, EB Nominees (Tempatan) Sdn Bhd and A.A. Anthony Nominees (Tempatan) Sdn Bhd.
- ⁽⁴⁾ Deemed interested by virtue of Section 6A(4) of the Act through its shareholding in Onstream.
- ⁽⁵⁾ 85,396,630 shares held through UOBM Nominees (Tempatan) Sdn Bhd.
- ⁽⁶⁾ Deemed interested by virtue of Section 6A(4) of the Act through his shareholding in Kaspadu.

Shah Hakim is deemed interested in the Proposed Renewal of Shareholders' Mandate by virtue of him being a Director of both SEB and SGB. Accordingly, he has abstained and will continue to abstain from deliberating and voting on the relevant resolutions in respect of the Proposed Renewal of Shareholders' Mandate at our relevant Board meetings.

Shah Hakim, SGB, Kaspadu, Onstream and Dato' Kamal are deemed interested by virtue of them being Major Shareholders of both SEB and SGB. Accordingly, they will abstain from voting on the relevant resolutions in respect of the Proposed Renewal of Shareholders' Mandate at our AGM. Further to this, Shah Hakim, SGB, Kaspadu, Onstream and Dato' Kamal will ensure that persons connected to them will abstain from voting on the relevant resolution, deliberating or approving the Proposed Renewal of Shareholders' Mandate at our AGM.

Save as disclosed above, none of the other Directors and Major Shareholders and/or persons connected to them as defined in the Listing Requirements has any interest, direct or indirect in the Proposed Renewal of Shareholders' Mandate.

6. DIRECTORS' RECOMMENDATION

After careful deliberation and having considered all aspects of the Proposed Renewal of Shareholders' Mandate, our Directors (with the exception of Shah Hakim) are of the opinion that the Proposed Renewal of Shareholders' Mandate is in the best interest of our Company. Accordingly, our Directors (with the exception of Shah Hakim) recommend that you vote in favour of the resolution approving the Proposed Renewal of Shareholders' Mandate which will be tabled at our forthcoming AGM.

7. AGM

The AGM will be held at Ballroom 3, 1st Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur, on Tuesday, 28 June 2011 at 10.00 a.m. for the purpose of considering and if thought fit, passing the resolution to give effect to the Proposed Renewal of Shareholders' Mandate. We have enclosed the notice of AGM together with the Company's Annual Report 2010.

If you are unable to attend and vote in person at the AGM, you may appoint a proxy or proxies to attend and vote on your behalf. If you wish to do so, you must deposit the Proxy Form for the AGM with our Share Registrar at Symphony Share Registrars Sdn Bhd, Level 6 Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia by 10.00 a.m. on Sunday, 26 June 2011. The lodging of the Proxy Form for the AGM will not preclude you from attending and voting in person at the AGM if you subsequently decide to do so.

8. FURTHER INFORMATION

Shareholders are requested to refer to the attached Appendix 1 for further information.

Yours faithfully
For and behalf of the Board of
SCOMI ENGINEERING BHD

Datuk Zainun Aishah binti Ahmad
Chairman

FURTHER INFORMATION**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular has been reviewed and approved by the Directors of SEB and they individually and collectively accept full responsibility for the accuracy of the information contained herein and confirm that, after having made all reasonable enquiries to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

2. MATERIAL CONTRACTS

Save as disclosed below, SEB has not entered into any material contracts (not being contracts entered into in the ordinary course of business of SEB) during the two (2) years immediately preceding the date hereof.

On 18 May 2010, the Company entered into a share sale agreement with OMS Holdings Pte Ltd, a wholly-owned subsidiary of Sumitomo Corporation Asia Pte Ltd for the disposal of the Machine Shop Business for a total cash consideration of approximately USD101.45 million, subject to adjustments, if any.

3. MATERIAL LITIGATION

Neither SEB nor any of its subsidiaries are involved in any material litigation, claims or arbitrations either as plaintiff or defendant and the Directors do not have any knowledge of any proceedings, pending or threatened against SEB or its subsidiaries as at the date of this Circular.

4. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at Level 17, 1 First Avenue, Bandar Utama, 47800, Petaling Jaya, Selangor during normal business hours (except public holidays) from the date of this Circular up to and including the date of the 27th AGM:

- (i) Memorandum and Articles of Association of SEB;
- (ii) By-Laws of the ESOS;
- (iii) audited consolidated financial statements of SEB for the 2 financial years ended 31 December 2009 and 31 December 2010, and the unaudited results for the three (3) months ended 31 March 2011; and
- (iv) the material contracts referred to in Section 2 above.