# VELESTO ENERGY BERHAD

**(COMPANY NO : 878786-H)**

**(INCORPORATED IN MALAYSIA)**

## Condensed Consolidated Statement Of Comprehensive Income

## For The Second Quarter Ended 30th June 2019

**( The Figures Have Not Been Audited )**

| | Current Quarter Ended 30/06/2019 RM'000 | Comparative Quarter Ended 30/06/2018 RM'000 | 6 Months Cumulative To Date 30/06/2019 RM'000 | Comparative 6 Months Cumulative To Date 30/06/2018 RM'000 |
|---|---|---|---|---|
| **Continuing Operations** | | | | |
| Revenue | 157,052 | 111,842 | 284,081 | 233,605 |
| Operating Expenses | (126,134) | (120,143) | (254,214) | (243,263) |
| Other Operating Income | 178 | 1,554 | 672 | 24,500 |
| **Profit / (Loss) From Operations** | 31,096 | (6,747) | 30,539 | 14,842 |
| Finance Costs | (21,235) | (19,758) | (42,596) | (41,519) |
| Share Of Profits Of Associated Company | 62 | 67 | 117 | 133 |
| Investment Income | 1,766 | 1,780 | 4,014 | 6,825 |
| **Profit / (Loss) Before Tax From Continuing Operations** | 11,689 | (24,658) | (7,926) | (19,719) |
| Taxation | 76 | (120) | (2,536) | (187) |
| **Profit / (Loss) From Continuing Operations, Net Of Tax** | 11,765 | (24,778) | (10,462) | (19,906) |
| **Other Comprehensive Income / (Loss):** | | | | |
| Translation Of Foreign Operations | 39,206 | 108,020 | (6,059) | (6,230) |
| Other Comprehensive Income / (Loss), Net Of Tax | 39,206 | 108,020 | (6,059) | (6,230) |
| **Total Comprehensive Income / (Loss) For The Period** | 50,971 | 83,242 | (16,521) | (26,136) |
| **Profit / (Loss) For The Period Attributable To:** | | | | |
| Equity Holders Of The Company | 11,913 | (24,080) | (10,306) | (19,065) |
| Non-controlling Interests | (148) | (698) | (156) | (841) |
| | 11,765 | (24,778) | (10,462) | (19,906) |
| **Total Comprehensive Income / (Loss) Attributable To:** | | | | |
| Equity Holders Of The Company | 50,956 | 83,940 | (16,401) | (25,249) |
| Non-controlling Interests | 15 | (698) | (120) | (887) |
| | 50,971 | 83,242 | (16,521) | (26,136) |
| **Earnings / (Loss) Per Share Attributable To Equity Holders Of The Company:** | | | | |
| Basic (Sen) | 0.15 | (0.30) | (0.13) | (0.24) |

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

# VELESTO ENERGY BERHAD
## Condensed Consolidated Statement Of Financial Position

| | (Unaudited) As At 30/06/2019 RM'000 | (Audited) As At 31/12/2018 RM'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-Current Assets** | | |
| Property, Plant and Equipment | 3,477,710 | 3,530,440 |
| Land Use Rights | 1,406 | 1,427 |
| Right of Use Assets | 8,548 | - |
| Investment In Associate | 1,883 | 2,245 |
| Deferred Tax Assets | 862 | 666 |
| | 3,490,409 | 3,534,778 |
| **Current Assets** | | |
| Inventories | 183,555 | 179,504 |
| Other Investments | 117,918 | 165,606 |
| Trade Receivables | 254,276 | 234,244 |
| Other Receivables | 14,881 | 14,281 |
| Deposits, Cash & Bank Balances | 215,549 | 235,029 |
| | 786,179 | 828,664 |
| **TOTAL ASSETS** | 4,276,588 | 4,363,442 |
| **EQUITY AND LIABILITIES** | | |
| **Equity Attributable To The Equity Holders Of The Company** | | |
| Share Capital | 4,054,817 | 4,054,817 |
| Capital Contribution - ESOS | 3,187 | 3,187 |
| Warrant Reserve | 211,876 | 211,876 |
| Other Reserves | 700,653 | 706,748 |
| Accumulated Losses | (2,189,962) | (2,179,656) |
| | 2,780,571 | 2,796,972 |
| Non-controlling Interests | 1,410 | 1,530 |
| **TOTAL EQUITY** | 2,781,981 | 2,798,502 |
| **Non-Current Liabilities** | | |
| Long Term Borrowings | 1,036,471 | 1,348,379 |
| Lease Liabilities | 7,520 | - |
| | 1,043,991 | 1,348,379 |
| **Current Liabilities** | | |
| Taxation | 2,090 | 336 |
| Short Term Borrowings | 311,735 | 88,828 |
| Lease Liabilities | 1,128 | - |
| Trade Payables | 96,703 | 89,336 |
| Other Payables | 38,960 | 38,061 |
| | 450,616 | 216,561 |
| **TOTAL LIABILITIES** | 1,494,607 | 1,564,940 |
| **TOTAL EQUITY AND LIABILITIES** | 4,276,588 | 4,363,442 |
| **Net Assets Per Share (RM)** | **0.3385** | **0.3404** |

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

## VELESTO ENERGY BERHAD

### Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30th June 2019

| | | Non - Distributable | | | | | | Distributable | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share Capital RM'000** | **Share Options Reserve RM'000** | **RCPS-i RM'000** | **Warrant Reserve RM'000** | **Capital Reserve RM'000** | **Foreign Currency Translation Reserve RM'000** | **Gain On Derecognition of Intercompany Financial Liabilities RM'000** | **Accumulated Losses RM'000** | **Total RM'000** | **Non - Controlling Interests RM'000** | **Total Equity RM'000** |
| **6 MONTHS ENDED 30TH JUNE 2019** | | | | | | | | | | | |
| At 1st January 2019 | 4,054,817 | 3,187 | - | 211,876 | 698 | 627,905 | 78,145 | (2,179,656) | 2,796,972 | 1,530 | 2,798,502 |
| Transactions With Owners | | | | | | | | | | | |
| Total Comprehensive Loss | - | - | - | - | - | (6,095) | - | (10,306) | (16,401) | (120) | (16,521) |
| At 30th June 2019 | 4,054,817 | 3,187 | - | 211,876 | 698 | 621,810 | 78,145 | (2,189,962) | 2,780,571 | 1,410 | 2,781,981 |

### Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30th June 2018

| | | Non - Distributable | | | | | | Distributable | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share Capital RM'000** | **Share Options Reserve RM'000** | **RCPS-i RM'000** | **Warrant Reserve RM'000** | **Capital Reserve RM'000** | **Foreign Currency Translation Reserve RM'000** | **Gain On Derecognition of Intercompany Financial Liabilities RM'000** | **Accumulated Losses RM'000** | **Total RM'000** | **Non - Controlling Interests RM'000** | **Total Equity RM'000** |
| **6 MONTHS ENDED 30TH JUNE 2018** | | | | | | | | | | | |
| At 1st January 2018 | 3,732,346 | 3,243 | 322,471 | 211,876 | 698 | 574,712 | 78,145 | (2,160,128) | 2,763,363 | 830 | 2,764,193 |
| Transactions With Owners | | | | | | | | | | | |
| Conversion Of RCPS-i To Share Capital | 322,471 | - | (322,471) | - | - | - | - | - | - | - | - |
| Disposal Of A Subsidiary | - | (56) | - | - | - | - | - | - | (56) | 1,539 | 1,483 |
| Total Comprehensive Loss | - | - | - | - | - | (6,184) | - | (19,065) | (25,249) | (887) | (26,136) |
| At 30th June 2018 | 4,054,817 | 3,187 | - | 211,876 | 698 | 568,528 | 78,145 | (2,179,193) | 2,738,058 | 1,482 | 2,739,540 |

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

## VELESTO ENERGY BERHAD

## Condensed Consolidated Statement Of Cash Flows
## For The Period Ended 30th June 2019

| | (Unaudited) 6 Months Ended 30/06/2019 RM'000 | (Unaudited) 6 Months Ended 30/06/2018 RM'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss Before Tax | (7,926) | (19,719) |
| Adjustments For: | | |
| Depreciation & Amortisation | 94,048 | 89,342 |
| Interest Expense | 42,596 | 41,519 |
| Share Of Results Of Associate | (117) | (133) |
| Investment Income | (4,014) | (6,825) |
| Net (Gain) / Loss On Disposal Of Property, Plant & Equipment | (58) | 1,069 |
| Net Unrealised Foreign Exchange (Gain) / Loss | (265) | 4,202 |
| Net Fair Value Gain On Money Market Fund | (340) | - |
| Property, Plant & Equipment Written Off | - | 6 |
| Operating Profit Before Working Capital Changes | 123,924 | 109,461 |
| (Increase) / Decrease In Receivables | (23,859) | 106,113 |
| (Increase) / Decrease In Inventories | (4,165) | 5,072 |
| Increase / (Decrease) In Payables | 9,323 | (68,186) |
| Cash Generated From Operating Activities | 105,223 | 152,460 |
| Interest Paid | (43,628) | (41,754) |
| Taxes Paid | (809) | (526) |
| Net Cash Generated From Operating Activities | 60,786 | 110,180 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase Of Property, Plant & Equipment | (42,756) | (433) |
| Proceeds From Disposal Of Property, Plant & Equipment | 154 | 1,067 |
| Net Proceeds From Disposal Of Subsidiary | - | 67 |
| Interest Received | 4,014 | 5,223 |
| Dividend Received From Associate | 328 | 307 |
| Investment In Money Market Fund | - | (185,780) |
| Proceeds From Disposal Of Money Market Fund | 50,175 | 25,069 |
| Net Cash Generated From / (Used In) Investing Activities | 11,915 | (154,480) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net Movement In Short Term Borrowings | 207,150 | (390,843) |
| Repayment Of Long Term Borrowings | (299,253) | (14,670) |
| Placement Of Restricted Cash Deposits In Licensed Bank | (23,707) | (32,042) |
| Net Cash Used In Financing Activities | (115,810) | (437,555) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (43,109) | (481,855) |
| **CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY** | 187,437 | 669,853 |
| **EFFECTS OF EXCHANGE RATE CHANGES** | (78) | (702) |
| **CASH AND CASH EQUIVALENTS AS AT 30TH JUNE** | 144,250 | 187,296 |
| **Cash and Cash Equivalents comprise:** | | |
| Deposits, Cash & Bank Balances | 215,549 | 230,232 |
| Less: Restricted cash | (71,299) | (42,936) |
| | 144,250 | 187,296 |

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

## Explanatory Notes

### NOTE 1 – Significant accounting policies

### Basis of preparation

The interim financial statements have been prepared in accordance with the requirements of International Accounting Standards ("IAS") 34, Interim Financial Reporting and Malaysian Financial Reporting Standards ("MFRS") 134, Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The significant accounting policies and methods of computation in the interim financial statements are consistent with those in the annual audited financial statements for the year ended 31st December 2018, except for the adoption of the following MFRS/ Amendments/Interpretations effective 1 January 2019:

a) MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)
b) MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)
c) MFRS 16 Leases
d) MFRS 128 Long-term interests in Associates and Joint Ventures (Amendments to MFRS128)
e) IC Interpretation 23 Uncertainty over Income Tax Treatments
f) Annual Improvements to MFRS Standards 2015–2017 Cycle

The Group has adopted the new and revised MFRSs and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1st January 2019. The adoption of these new and revised MFRSs and IC Interpretations have not resulted in any material impact on the financial statements of the Group as mentioned below:

### MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS 16 is substantially unchanged from today's accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

As allowed by the transitional provision of MFRS 16, the Group has elected the modified retrospective approach with no restatement of comparative. Right of use assets are measured at an amount equal to the lease liability amount on the date of transition.

**MFRS 16 Leases (Cont'd):**

The adoption of MFRS 16 have the following impact on the unaudited consolidated financial statements for the period ended 30th June 2019:

| | Unaudited 30/06/2019 RM'000 | Impact of MFRS 16 adoption RM'000 | Unaudited 30/06/2019 with adoption of MFRS 16 RM'000 |
|---|---|---|---|
| **Consolidated Statement Of Financial Position** | | | |
| Right of Use Assets | - | 8,548 | 8,548 |
| Lease Liabilities | - | 8,648 | 8,648 |
| | | | |
| **Consolidated Statement Of Comprehensive Income** | | | |
| Depreciation | 93,207 | 841 | 94,048 |
| Other operating expenses | 161,141 | (975) | 160,166 |
| Finance costs | 42,363 | 233 | 42,596 |

**Standards issued but not yet effective:**

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but not yet effective and have not been applied by the Group:

- Amendments to MFRS 3, Business Combinations – Definition of a Business (effective 1 January 2020)
- Amendments to MFRS 101, Presentation of Financial Statements (effective 1 January 2020)
- Amendments to MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material (effective 1 January 2020)
- MFRS 17, Insurance Contracts (effective 1 January 2021)
- Amendments to MFRS 10 and MFRS 128, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred)

**NOTE 2 – Seasonal or Cyclical Factors**

The Group is principally engaged in:

(a) the provision of drilling services for exploration, development and production wells and workover services to the upstream sector of the oil and gas industry; and

(b) the provision of threading, inspection and repair services for Oil Country Tubular Goods, with a focus on premium connections used in high-end and complex wells.

The Group's products and services are dependent on the level of activity, and the corresponding capital spending by oil and gas companies. These oil and gas companies are affected by volatile oil and natural gas prices, and cyclicality in the offshore drilling and oilfield services industries.

**NOTE 3 – Exceptional Items**

There were no material unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period ended 30th June 2019.

**NOTE 4 – Accounting Estimates**

There were no changes in estimates of amounts reported in prior interim periods of the current financial year and in prior financial years that have a material effect during the financial period ended 30th June 2019.

**NOTE 5 – Issuance or Repayment of Debt and Equity Securities**

There were no issuances or repayments of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period ended 30th June 2019.

**NOTE 6 – Dividends Paid**

There were no dividends paid during the period ended 30th June 2019.

**NOTE 7 – Segmental Reporting**

| | **Financial Period Ended 30th June 2019** | | |
|---|---|---|---|
| **Business Segment** | **Revenue RM'000** | **Profit / (Loss) Before Tax RM'000** | **Profit / (Loss) Attributable to Owners of the Company RM'000** |
| Drilling Services | 279,250 | 4,279 | 2,089 |
| Oilfield Services | 4,564 | 21 | (84) |
| Others | 267 | (12,226) | (12,311) |
| **Consolidated Total** | **284,081** | **(7,926)** | **(10,306)** |

| | **Financial Period Ended 30th June 2018** | | |
|---|---|---|---|
| **Business Segment** | **Revenue RM'000** | **Profit / (Loss) Before Tax RM'000** | **Profit / (Loss) Attributable to Owners of the Company RM'000** |
| Drilling Services | 225,563 | (27,205) | (27,335) |
| Oilfield Services | 7,645 | (3,279) | (2,478) |
| Others | 397 | 10,765 | 10,748 |
| **Consolidated Total** | **233,605** | **(19,719)** | **(19,065)** |

The decrease in total assets from RM4,363.4 million to RM4,276.6 million during the financial period ended 30th June 2019 was mainly due to the depreciation of RM94.0 million of the Group's fixed assets. The deposit, cash and bank balances and other investments have reduced by RM67.2m mainly due to the net repayment of borrowings amounting to RM92.1 million, which includes quarterly instalment commitments and additional partial prepayment to pare down the term loan. The decrease was offset with the additions of property, plant and equipment of RM42.8 million mainly from the jack-up rigs 5-yearly special periodic survey.

Total liabilities reduced mainly due to reduction of term borrowings from repayment and partial prepayment of loan during the period.

Other than the above, there has been no other material movement in total assets and total liabilities as compared to the last annual financial statements.

**NOTE 8 – Subsequent Material Events**

In the opinion of the Directors, there has been no material event or transaction during the period from 30th June 2019 to the date of this announcement, which substantially affects the results of the Group for the financial period ended 30th June 2019.

**NOTE 9 – Changes in Composition / Group**

1. On 21st February 2019, the Board of Directors of the Group announced the incorporation of the following nine new subsidiaries in Malaysia under the Companies Act, 2016:

   a) Velesto Rig Asset Sdn Bhd
   b) Velesto Sumber Sdn Bhd
   c) Velesto Drilling 2 Sdn Bhd
   d) Velesto Drilling 3 Sdn Bhd
   e) Velesto Drilling 4 Sdn Bhd
   f) Velesto Drilling 5 Sdn Bhd
   g) Velesto Drilling 6 Sdn Bhd
   h) Velesto Drilling 7 Sdn Bhd
   i) Velesto Drilling 8 Sdn Bhd

   The above mentioned companies are wholly owned subsidiaries of Velesto Malaysian Ventures Sdn Bhd, with an initial issued and paid-up capital of RM2, respectively.

The above changes are not expected to have any material effect on the net assets per share, earnings per share and gearing of the Group for the financial period ended 30th June 2019.

Other than the above, there were no other changes in the composition of the Group during the financial period ended 30th June 2019.

**NOTE 10 – Commitments for the purchase of Property, Plant and Equipment**

These are in respect of capital commitments:

| | RM'000 | RM'000 |
|---|---|---|
| **Approved and contracted for**: | | |
| Land and buildings | 195 | |
| Equipment, plant and machinery | 34,625 | |
| Others | 156 | 34,976 |
| **Approved but not contracted for:** | | |
| Land and buildings | 3,675 | |
| Equipment, plant and machinery | 134,971 | |
| Others | 2,780 | 141,426 |
| **Total** | | 176,402 |

**NOTE 11 - Significant Related Party Transactions**

This is not applicable to the Group.

**NOTE 12 – Classification of Financial Assets**

There were no changes in the classification of financial assets as a result of a change in the purpose or use of the asset.

**NOTE 13 – Changes in Contingent Liabilities and Contingent Assets**

There were no material contingent liabilities and contingent assets as at 30th June 2019.

**NOTE 14 – Review of Performance**

**Current Quarter Ended 30th June 2019**

| | **Revenue** | | **Profit / (Loss) Before Tax** | |
|---|---|---|---|---|
| | **2nd Quarter ended 30/06/2019 RM'000** | **2nd Quarter ended 30/06/2018 RM'000** | **2nd Quarter ended 30/06/2019 RM'000** | **2nd Quarter ended 30/06/2018 RM'000** |
| **Business Segment** | | | | |
| Drilling Services | 154,515 | 107,547 | 17,244 | (15,219) |
| Oilfield Services | 2,359 | 4,013 | 295 | (2,297) |
| Others | 178 | 282 | (5,850) | (7,142) |
| **Total** | **157,052** | **111,842** | **11,689** | **(24,658)** |

**Group**

Group revenue of RM157.1 million for the second quarter ended 30th June 2019 was higher than the RM111.8 million registered in the same quarter of 2018, an increase of RM45.3 million or 40.5%. It was mainly due to improved performance of the Drilling Services segment as a result of higher utilisation of rigs and average charter rate.

The Group recorded a profit before taxation of RM11.7 million in the second quarter of 2019 against a loss before taxation of RM24.7 million recorded in the same quarter of 2018, significant improvement of RM36.4 million mainly due to higher revenue.

**Drilling Services Segment**

In the second quarter of 2019, the Drilling Services segment contributed revenue of RM154.5 million or 98.4% of the total revenue for the Group, an increase of RM47.0 million or 43.7% from the RM107.5 million recorded in the same quarter of 2018. This was due to higher average jack-up rig utilisation of 74% as compared to 59% in the same period of 2018. In addition, our Hydraulic Workover Unit (HWU) also recorded higher revenue arising from the commencement of GAIT 1 operation in the second quarter of 2019.

Consequently, Drilling Services segment recorded a profit before taxation of RM17.2 million in the second quarter of 2019 compared to a loss of RM15.2 million reported in the same quarter of 2018.

**Oilfield Services Segment**

The Oilfield Services segment contributed revenue of RM2.4 million or 1.5% of the total revenue of RM157.1 million in the second quarter of 2019. This was lower than the revenue registered in the same quarter of 2018 by RM1.6 million, mainly due to the cessation of business operation in Labuan.

Despite lower revenue, the Oilfield Services segment reported a marginal profit before taxation of RM0.3 million in the second quarter of 2019 as compared to RM2.3 million loss recorded in the same quarter of 2018, significant improvement of RM2.6 million. This was due to the rationalisation exercise of the loss-making oilfield companies that was completed at the end of 2018.

**Others Segment**

Others segment recorded a lower loss before taxation of RM5.9 million as compared to loss of RM7.1 million mainly due to forex gain and lower overhead expenses during the current period.

**Six Months Ended 30th June 2019**

| | Revenue | | Profit / (Loss) Before Tax | |
|---|---|---|---|---|
| | **Six months ended 30/06/2019 RM'000** | **Six months ended 30/06/2018 RM'000** | **Six months ended 30/06/2019 RM'000** | **Six months ended 30/06/2018 RM'000** |
| **Business Segment** | | | | |
| Drilling Services | 279,250 | 225,563 | 4,279 | (27,205) |
| Oilfield Services | 4,564 | 7,645 | 21 | (3,279) |
| Others | 267 | 397 | (12,226) | 10,765 |
| **Total** | **284,081** | **233,605** | **(7,926)** | **(19,719)** |

**Group**

Group revenue of RM284.1 million for the six months ended 30th June 2019 was higher than the RM233.6 million registered in the same period of 2018, an increase of RM50.5 million or 21.6% as a result of higher rigs utilisation and average charter rate.

In line with higher revenue, the Group posted a lower loss before tax of RM7.9 million for the six-month period ended 30th June 2019 against the RM19.7 million recorded in the same period of 2018, an improvement of RM11.8 million or 59.9%.

**Drilling Services Segment**

For the six-month period of 2019, the Drilling Services segment contributed revenue of RM279.3 million or 98.3% of the total revenue for the Group, an increase of RM53.7 million or 23.8% from the RM225.6 million recorded in the same period of 2018. This was due to higher jack-up rigs utilisation of 70% as compared to 62% in the same period of 2018. In addition, our HWU also contributed to higher revenue for the six months in 2019 following from the commencement of GAIT 1 operations in the second quarter in 2019.

As a result, the Drilling Services segment incurred a profit before tax of RM4.3 million for the six-month period ended 30th June 2019 compared to the loss of RM27.2 million reported in the same period of 2018, an improvement of RM31.5 million or 115.8%. Lower operating cost also contributed to the lower loss during the current period as a result of our efforts to contain cost.

**Oilfield Services Segment**

The Oilfield Services segment contributed revenue of RM4.6 million or 1.6% of the total revenue of RM284.1 million in the six-month period of 2019. This was lower than the revenue registered in the same period of 2018 by RM3.0 million, mainly arising from the rationalisation exercise which was completed during the year 2018.

Consequently, the Oilfield Services segment reported a minimal profit before taxation of RM21,000 in the six-month of 2019 as compared to RM3.3 million loss before taxation recorded in the same period of 2018, significant improvement of RM3.3 million.

**Others Segment**

Others segment recorded loss before taxation of RM12.2 million as compared to profit before taxation of RM10.8 million. This was mainly due to the net foreign exchange gain of RM18.2 million resulted from early settlement of revolving credit in the previous year corresponding period. Lower investment income in the current period by RM3.1 million due to lower cash and other investment after paring down borrowings contributed to further loss for the segment.

**NOTE 15 – Comparison with Preceding Quarter's Results**

| | Revenue | | Profit / (Loss) Before Tax | |
|---|---|---|---|---|
| | 2nd Quarter ended 30/06/2019 RM'000 | 1st Quarter ended 31/03/2019 RM'000 | 2nd Quarter ended 30/06/2019 RM'000 | 1st Quarter ended 31/03/2019 RM'000 |
| **Business Segment** | | | | |
| Drilling Services | 154,515 | 124,735 | 17,244 | (12,965) |
| Oilfield Services | 2,359 | 2,205 | 295 | (274) |
| Others | 178 | 89 | (5,850) | (6,376) |
| **Total** | **157,052** | **127,029** | **11,689** | **(19,615)** |

Group revenue of RM157.1 million for the second quarter of 2019 was higher than the RM127.0 million achieved in the first quarter of 2019, an increase of RM30.1 million or 23.7%. Higher revenue in the current quarter was due to higher jack-up rigs' utilisation of 74% as compared to 66% in the previous quarter. In addition, our HWU contributed higher revenue in second quarter 2019 due to the commencement of GAIT 1 operations.

As a result, the Group posted a profit before taxation of RM11.7 million in the second quarter of 2019 compared to a loss before taxation of RM19.6 million reported in the previous quarter. Drilling Services segment recorded a turnaround to profitability as a result of higher rigs utilisation.

**NOTE 16 – Current Prospect**

**Drilling Services Segment**

Current global issues and concerns about their effects on the economy and growth have driven benchmark Brent oil price to around USD60 per barrel. However, the continued production quota by Organisation of the Petroleum Exporting Countries ("OPEC") and non-OPEC major producers, the Iran and Venezuela sanctions and the declining production capability of some of the major producers provided the basis for continued investment by oil and gas exploration and production companies.

Drilling activities have continued to increase with more contracts being tendered out and awarded, both locally and globally. At present, six out of the seven jack-up drilling rigs owned by the Group are working while one is being prepared to be mobilised for the recently awarded long term contracts, expected to commence in early September 2019. With the commencement of the new contracts and extension of existing contracts, utilisation of the rigs is expected to increase significantly in the second half of the year, with a number of them expected to continue working into 2020 and beyond.

The demand for hydraulic workover units is also improving with two of the Group's units are already working and a number of tenders are in progress. The increased demand in both jack-up drilling rigs and hydraulic workover units is expected to benefit the Group, being the main player with strong domestic and regional track records. Improvements in time charter rates and contract durations are also seen based on recently awarded contracts.

**Oilfield Services Segment**

While the business outlook has shown some improvement, the Group will continuously evaluate the viability of the only remaining minor subsidiary operating under this segment.

**Group**

Based on the expected higher utilisation and time charter rates for the Group's assets in the second half of the year, the Board expects an improved financial performance for the Group in 2019.

**NOTE 17 – Statement on Revenue and Profit Forecast**

This is not applicable to the Group.

**NOTE 18 – Variance from Profit Forecast and Profit Guarantee**

This is not applicable to the Group.

**NOTE 19 – Taxation**

| | 2nd Quarter ended 30/06/2019 RM'000 | Six Months ended 30/06/2019 RM'000 |
|---|---:|---:|
| Taxation for current period | 115 | 2,810 |
| Over provision in prior periods | 1 | (78) |
| | 116 | 2,732 |
| Deferred taxation | (192) | (196) |
| Total | (76) | 2,536 |

The current quarter tax expense of RM115,000 was lower than previous quarter mainly due to the reversal of provision for tax estimates from the previous quarter.

**NOTE 20 – Corporate Proposals**

**(a)** The Company has announced on 30th August 2019, that the Company proposes to establish an employees' share option scheme ("ESOS") of up to 7.5% of the total number of issued shares of the Company (excluding treasury shares, if any) at any point in time over the duration of the ESOS for eligible executive directors and employees of the Company and its subsidiary companies (excluding subsidiary companies which are dormant) ("Proposed ESOS").

The Proposed ESOS is subject to, among others, the approval from the shareholders of the Company at an extraordinary general meeting to be convened. The Proposed ESOS is expected to be implemented by the 4th quarter of 2019.

Other than the above, there were no other corporate proposals announced but not completed at the date of this announcement.

**(b) Status of Utilisation of Proceeds**

Not applicable.

**NOTE 21 – Group Borrowings and Debt Securities**

| | RM'000 | RM'000 | USD'000 |
|---|---|---|---|
| Short term borrowings | | | |
| - Secured | | | |
| Revolving credit | 207,150 | | 50,000 |
| Term loans payable within 12 months | 104,585 | 311,735 | 25,244 |
| | | 311,735 | 75,244 |
| Long term borrowings | | | |
| - Secured | | | |
| Long term loans | 1,167,019 | | 281,685 |
| Term loans payable within 12 months | (104,585) | | (25,244) |
| Less: Transaction cost | (25,963) | | |
| | | 1,036,471 | |
| | | 1,036,471 | 256,441 |

| **Movements of Borrowings** | **Revolving Credit RM '000** | **Short Term Borrowings RM '000** | **Long Term Borrowings RM '000** | **Total RM '000** |
|---|---|---|---|---|
| Opening Balance | - | 88,828 | 1,348,379 | 1,437,207 |
| Transaction cost | - | - | 30,995 | 30,995 |
| Amount payable within 12 months | - | (88,828) | 88,828 | - |
| Adjusted Opening Balance | - | - | 1,468,202 | 1,468,202 |
| Exchange Difference | - | - | (1,930) | (1,930) |
| Repayment | - | - | (299,253) | (299,253) |
| | - | - | 1,167,019 | 1,167,019 |
| Transaction cost | - | - | (25,963) | (25,963) |
| Drawdown | 207,150 | - | - | 207,150 |
| Amount payable within 12 months | - | 104,585 | (104,585) | - |
| Closing Balance | 207,150 | 104,585 | 1,036,471 | 1,348,206 |

**NOTE 22 – Material Litigation**

Reference is made to the enforcement proceeding against Frontier Oil Corporation at the Regional Trial Court, in Makati City, Philippines previously announced by the Company. The Company will make further announcement on material development on this matter from time to time.

Other than the above, there was no other material litigation pending on the date of this announcement.

**NOTE 23 – Dividend**

No dividend has been recommended for the period ended 30th June 2019.

**NOTE 24 – Earnings Per Share**

Basic earnings/(loss) per share for the current quarter and the six-month period ended 30th June 2019 are calculated by dividing the net profit/(loss) attributable to equity holders of the Company of RM11,913,000 and (RM10,306,000) respectively, by the weighted average number of ordinary shares in issue as at 30th June 2019 of 8,215,600,000 shares.

**NOTE 25 – Audit Qualification**

The audit report in respect of the annual financial statements of the Company for the financial year ended 31st December 2018 was not qualified.

**NOTE 26 – Items to Disclose in the Statement of Comprehensive Income**

| | **2nd Quarter ended 30/06/2019 RM'000** | **Six Months ended 30/06/2019 RM'000** |
|---|---:|---:|
| (a) Interest income | 952 | 1,867 |
| (b) Other Investment Income | 814 | 2,147 |
| (c) Depreciation and amortisation | (45,686) | (94,048) |
| (d) Net gain/(loss) on disposal of property, plant and equipment | 46 | 58 |
| (e) Net foreign exchange gain / (loss) | 20 | 547 |
| (f) Property, plant and equipment written off and impairment | - | - |

**By Order Of The Board**

**LEE MI RYOUNG**
**Secretary**
**(MAICSA 7058423)**

Kuala Lumpur
30th August 2019