

VELESTO ENERGY BERHAD

(COMPANY NO : 878786-H)

(INCORPORATED IN MALAYSIA)

Condensed Consolidated Statement Of Comprehensive Income

For The Fourth Quarter Ended 31st December 2019

(The Figures Have Not Been Audited)

	Quarter Ended 31/12/2019 RM'000	Quarter Ended 31/12/2018 RM'000	(Unaudited) Financial Year Ended 31/12/2019 RM'000	(Audited) Financial Year Ended 31/12/2018 RM'000
<u>Continuing Operations</u>				
Revenue	178,101	189,875	670,755	573,804
Operating Expenses	(147,412)	(157,268)	(557,761)	(545,147)
Other Operating Income	92	1,671	2,718	26,207
Profit From Operations	30,781	34,278	115,712	54,864
Finance Costs	(18,172)	(22,427)	(81,452)	(85,118)
Share Of Results Of Associated Company	55	53	233	249
Investment Income	1,928	3,617	7,998	12,442
Profit / (Loss) Before Tax From Continuing Operations	14,592	15,521	42,491	(17,563)
Taxation	(4,391)	(2,441)	(9,423)	(2,873)
Profit / (Loss) From Continuing Operations, Net Of Tax	10,201	13,080	33,068	(20,436)
<u>Other Comprehensive (Loss) / Income:</u>				
Foreign Currency Translation	(49,880)	638	(28,880)	53,262
Other Comprehensive (Loss) / Income, Net Of Tax	(49,880)	638	(28,880)	53,262
Total Comprehensive (Loss) / Income For The Period	(39,679)	13,718	4,188	32,826
<u>Profit / (Loss) For The Period Attributable To:</u>				
Equity Holders Of The Company	10,201	13,106	33,216	(19,528)
Non-controlling Interests	-	(26)	(148)	(908)
	10,201	13,080	33,068	(20,436)
<u>Total Comprehensive (Loss) / Income Attributable To:</u>				
Equity Holders Of The Company	(39,659)	13,629	4,458	33,665
Non-controlling Interests	(20)	89	(270)	(839)
	(39,679)	13,718	4,188	32,826
<u>Earnings / (Loss) Per Share Attributable To Equity Holders Of The Company:</u>				
Basic (Sen)	0.12	0.16	0.40	(0.24)
Diluted (Sen)	0.12	0.16	0.40	(0.24)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31st December 2018)

VELESTO ENERGY BERHAD
Condensed Consolidated Statement Of Financial Position

	(Unaudited) As At 31/12/2019 RM'000	(Audited) As At 31/12/2018 RM'000
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	3,410,166	3,530,440
Land Use Rights	1,324	1,427
Right of Use Assets	11,937	-
Investment In Associate	1,984	2,245
Deferred Tax Assets	-	666
	3,425,411	3,534,778
Current Assets		
Inventories	187,439	179,504
Other Investments	119,988	165,606
Trade Receivables	281,454	234,244
Other Receivables	19,450	14,281
Deposits, Cash & Bank Balances	239,983	235,029
	848,314	828,664
TOTAL ASSETS	4,273,725	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	3,906	3,187
Warrant Reserve	211,876	211,876
Other Reserves	677,990	706,748
Accumulated Losses	(2,146,440)	(2,179,656)
	2,802,149	2,796,972
Non-controlling Interests	1,260	1,530
TOTAL EQUITY	2,803,409	2,798,502
Non-Current Liabilities		
Long Term Borrowings	980,961	1,348,379
Lease Liabilities	8,089	-
	989,050	1,348,379
Current Liabilities		
Taxation	5,284	336
Short Term Borrowings	312,291	88,828
Lease Liabilities	3,920	-
Trade Payables	118,502	89,336
Other Payables	41,269	38,061
	481,266	216,561
TOTAL LIABILITIES	1,470,316	1,564,940
TOTAL EQUITY AND LIABILITIES	4,273,725	4,363,442
Net Assets Per Share (RM)	0.3411	0.3404

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31st December 2018)

VELESTO ENERGY BERHAD

Condensed Consolidated Statement Of Changes In Equity For The Year Ended 31st December 2019

	← Non - Distributable						Distributable →		Total RM'000	Non - Controlling Interests RM'000	Total Equity RM'000
	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 Financial Liabilities RM'000	Accumulated Losses RM'000			
12 MONTHS ENDED 31ST DECEMBER 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:											
Fair value of share options granted under Employees' Share Option Scheme ("ESOS")	-	719	-	-	-	-	-	-	719	-	719
Total Comprehensive (Loss) / Income	-	-	-	-	-	(28,758)	-	33,216	4,458	(270)	4,188
At 31st December 2019	4,054,817	3,906	-	211,876	698	599,147	78,145	(2,146,440)	2,802,149	1,260	2,803,409

Condensed Consolidated Statement Of Changes In Equity For The Year Ended 31st December 2018

	← Non - Distributable						Distributable →		Total RM'000	Non - Controlling Interests RM'000	Total Equity RM'000
	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 Financial Liabilities RM'000	Accumulated Losses RM'000			
(AUDITED)											
12 MONTHS ENDED 31ST DECEMBER 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 Income / (Loss)	-	-	-	-	-	53,193	-	(19,528)	33,665	(839)	32,826
At 31st December 2018	4,054,817	3,187	-	211,876	698	627,905	78,145	(2,179,656)	2,796,972	1,530	2,798,502

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31st December 2018)

VELESTO ENERGY BERHAD

Condensed Consolidated Statement Of Cash Flows For The Year Ended 31st December 2019

	(Unaudited)	(Audited)
	12 Months	12 Months
	Ended	Ended
	31/12/2019	31/12/2018
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (Loss) Before Tax	42,491	(17,563)
Adjustments For:		
Depreciation & Amortisation	198,387	191,465
Impairment loss on property, plant and equipment	-	10,522
Impairment loss on land use rights	-	803
Interest Expense	81,452	85,118
Share Of Results Of Associated Company	(233)	(249)
Investment Income	(7,998)	(12,442)
Reversal of provision for impairment losses on receivables	-	(1,474)
Reversal of provision for unutilised leave	-	(71)
Net Loss On Disposal Of Property, Plant & Equipment	732	1,970
Net Unrealised Foreign Exchange Gain	(1,590)	(1,131)
Net Fair Value Gain On Money Market Fund	(416)	(85)
Property, Plant & Equipment Written Off	-	62
Operating Profit Before Working Capital Changes	<u>312,825</u>	<u>256,925</u>
(Increase) / Decrease In Receivables	(43,968)	22,241
(Increase) / Decrease In Inventories	(9,726)	18,964
Increase / (Decrease) In Payables	<u>36,377</u>	<u>(54,844)</u>
Cash Generated From Operating Activities	295,508	243,286
Interest Paid	(83,992)	(85,126)
Taxes Paid	<u>(8,863)</u>	<u>(558)</u>
Net Cash Generated From Operating Activities	<u>202,653</u>	<u>157,602</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase Of Property, Plant & Equipment	(113,370)	(27,574)
Proceeds From Disposal Of Property, Plant & Equipment	144	4,761
Net Cash Inflow From Disposal Of Subsidiary	-	1,810
Interest Received	7,998	13,783
Dividend Received From Associate	343	307
Net Proceeds From Disposal /(Investment) Of Money Market Fund	<u>50,175</u>	<u>(165,521)</u>
Net Cash Used In Investing Activities	<u>(54,710)</u>	<u>(172,434)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Movement In Short Term Borrowings	117,186	(432,322)
Repayment Of Long Term Borrowings	(255,050)	-
Placement Of Restricted Cash Deposits In Licensed Bank	<u>(24,112)</u>	<u>(36,698)</u>
Net Cash Used In Financing Activities	<u>(161,976)</u>	<u>(469,020)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,033)	(483,852)
CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY	187,437	669,853
EFFECTS OF EXCHANGE RATE CHANGES	(5,125)	1,436
CASH AND CASH EQUIVALENTS AS AT 31ST DECEMBER	<u>168,279</u>	<u>187,437</u>
Cash and Cash Equivalents comprise:		
Deposits, Cash & Bank Balances	239,983	235,029
Less: Restricted cash	<u>(71,704)</u>	<u>(47,592)</u>
	<u>168,279</u>	<u>187,437</u>

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31st December 2018)

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 except as mentioned below:

MFRS 16 Leases

MFRS 16 supersedes MFRS 117: Leases, IC Interpretation 4: Determining whether an Arrangement contains a Lease, IC Interpretation 115: Operating Lease - Incentives and IC Interpretation 127: Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying MFRS 117 and IC 4 at the date of initial application.

The adoption of MFRS 16 have the following impact on the unaudited consolidated financial statements for the period ended 31st December 2019:

	Unaudited 31/12/2019	Impact of MFRS 16 adoption	Unaudited 31/12/2019 with adoption of MFRS 16
	RM'000	RM'000	RM'000
Consolidated Statement Of Financial Position			
Right of Use Assets	-	11,937	11,937
Lease Liabilities	-	12,009	12,009
Consolidated Statement Of Comprehensive Income			
Depreciation	194,495	3,892	198,387
Other operating expenses	363,898	(4,524)	359,374
Finance costs	80,747	705	81,452

MFRS 16 Leases (Cont'd):

The Group has lease contracts for warehouses, vehicles and other equipment. Before the adoption of MFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of MFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under MFRS 117). The requirements of MFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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 – Definition of Material (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 cyclicity in the offshore drilling and oilfield services industries.

NOTE 3 – Exceptional Items

There were no material unusual items affecting the Group's assets, liabilities, equity, net income or cash flows during the financial year ended 31st December 2019.

NOTE 4 – Accounting Estimates

There were no material changes in estimates of amounts reported in the prior interim periods of the current financial year or the previous financial years that have a material effect on the results for the financial year under review.

NOTE 5 – Issuance or Repayment of Debt and Equity Securities

There were no issuances, repurchases or repayments of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial year under review.

NOTE 6 – Dividends Paid

There were no dividends paid during the financial year ended 31st December 2019.

NOTE 7 – Segmental Reporting

Financial Year Ended 31st December 2019

Business Segment	Revenue RM'000	Profit / (Loss) Before Tax RM'000	Profit / (Loss) Attributable to Owners of the Company RM'000
Drilling Services	660,068	68,545	62,363
Oilfield Services	10,153	1,702	1,241
Others	5,161	(27,756)	(30,388)
Inter-segment	(4,627)	-	-
Consolidated Total	670,755	42,491	33,216

Financial Year Ended 31st December 2018

Business Segment	Revenue RM'000	Profit / (Loss) Before Tax RM'000	Profit / (Loss) Attributable to Owners of the Company RM'000
Drilling Services	556,638	(12,672)	(12,840)
Oilfield Services	16,204	(13,693)	(13,285)
Others	10,181	8,802	6,597
Inter-segment	(9,219)	-	-
Consolidated Total	573,804	(17,563)	(19,528)

There has been no material change in total assets and no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last annual financial statements.

NOTE 8 – Subsequent Material Events

There has been no material event or transaction during the period from 31st December 2019 to the date of this announcement, which substantially affects the results of the Group for the financial year ended 31st December 2019.

NOTE 9 – Changes in Composition / Group

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 each.

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 year ended 31st December 2019.

Other than the above, there were no other changes in the composition of the Group during the financial year ended 31st December 2019.

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

The capital commitments are in respect of the following:

	RM'000	RM'000
Approved and contracted for:		
Land and buildings	148	
Equipment, plant and machinery	8,905	
Others	150	9,203
	<hr/>	
Approved but not contracted for:		
Land and buildings	5,257	
Equipment, plant and machinery	99,681	
Others	3,082	108,020
	<hr/>	
Total		<hr/> 117,223 <hr/>

NOTE 11 - Significant Related Party Transactions

There were no significant related party transactions for the financial year ended 31st December 2019.

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 – Contingent Liabilities and Contingent Assets

There were no material contingent liabilities and contingent assets as at 31st December 2019.

NOTE 14 – Review of Performance

Performance of Current Quarter Against the Quarter Ended 31st December 2018 (“corresponding quarter”)

	Revenue		Profit / (Loss) Before Tax	
	4th Quarter ended 31/12/2019 RM'000	4th Quarter ended 31/12/2018 RM'000	4th Quarter ended 31/12/2019 RM'000	4th Quarter ended 31/12/2018 RM'000
Business Segment				
Drilling Services	175,643	186,077	22,250	18,679
Oilfield Services	2,375	3,652	312	(6,306)
Others	83	146	(7,970)	3,148
Total	178,101	189,875	14,592	15,521

Group

Group revenue of RM178.1 million was 6.2% lower than corresponding quarter's revenue of RM189.9 million, mainly due to lower revenue recorded across all segments in the current quarter.

Consequently, the Group reported lower profit before tax of RM14.6 million against RM15.5 million profit in the corresponding quarter.

Segmental review of performance against the corresponding quarter is as follows:

Drilling Services Segment

Drilling Services segment registered a 5.6% decline in revenue to RM175.6 million in the quarter under review, mainly due to lower average jack-up rig utilisation of 86% as compared to 91% in the corresponding quarter.

Nevertheless, Drilling Services segment recorded higher profit before tax of RM22.3 million compared to RM18.7 million in the corresponding quarter, mainly due to lower finance cost in the current quarter.

Oilfield Services Segment

Oilfield Services segment's revenue of RM2.4 million was 35% lower than the corresponding quarter's revenue of RM3.7 million, mainly due to the cessation of business operation in Labuan.

However, the segment reported a profit before tax of RM0.3 million in the current quarter compared to RM6.3 million loss recorded in the corresponding quarter, mainly due to RM7.4 million impairment loss on assets recorded for a subsidiary in China in the corresponding quarter.

Others Segment

Others segment recorded a loss before tax of RM8.0 million as compared to a profit of RM3.1 million mainly due to higher personnel related expenses, lower forex gain and lower investment income in the current quarter.

NOTE 14 – Review of Performance (continued)

Performance of Current Year Against the Financial Year Ended 31st December 2018 (“corresponding year”)

	Revenue		Profit / (Loss) Before Tax	
	Financial year ended 31/12/2019 RM'000	Financial year ended 31/12/2018 RM'000	Financial year ended 31/12/2019 RM'000	Financial year ended 31/12/2018 RM'000
Business Segment				
Drilling Services	660,068	556,638	68,545	(12,672)
Oilfield Services	10,153	16,204	1,702	(13,693)
Others	534	962	(27,756)	8,802
Total	670,755	573,804	42,491	(17,563)

Group

Group revenue of RM670.8 million was 16.9% higher than the corresponding year's revenue of RM573.8 million, mainly due to improved performance in the Drilling Services segment.

In line with higher revenue, the Group posted a profit before tax of RM42.5 million against RM17.6 million loss in the corresponding year, a significant improvement of RM60.1 million.

Analysis of segmental performance against the corresponding year is as follows:

Drilling Services Segment

Revenue of RM660.1 million was 18.6% higher than the corresponding year's revenue of RM556.6 million, driven by improvement in utilisation and higher daily charter rates for both jack-up rigs and hydraulic workover units (“HWU”) in 2019. The utilisation rate for jack-up rigs was 80% in the current year as compared to 73% in the corresponding year.

As a result, the Drilling Services segment registered a significant improvement to a profit before tax of RM68.5 million against the loss before tax of RM12.7 million reported in the corresponding year.

Oilfield Services Segment

The Oilfield Services segment experienced a 37.3% decline in revenue following from the rationalisation exercise, which was completed in 2018.

Despite lower revenue, the Oilfield Services segment recorded a profit before tax of RM1.7 million against a loss before tax of RM13.7 million in the corresponding year. The loss before tax in the corresponding year was mainly due to RM7.4 million impairment loss on assets recorded for a subsidiary in China and a provision for retrenchment benefit of RM4.0 million for a subsidiary in Labuan as part of the rationalisation exercise.

Others Segment

Others segment recorded loss before tax of RM27.8 million against profit before tax of RM8.8 million in the corresponding year, mainly due to RM18.2 million net gain on realised foreign exchange recognised from early settlement of revolving credit in the corresponding year. In addition, lower investment income and higher personnel related expenses in current year contributed to further loss for the segment.

NOTE 15 – Comparison with Preceding Quarter’s Results

	Revenue		Profit / (Loss) Before Tax	
	4th Quarter ended 31/12/2019 RM'000	3rd Quarter ended 30/09/2019 RM'000	4th Quarter ended 31/12/2019 RM'000	3rd Quarter ended 30/09/2019 RM'000
Business Segment				
Drilling Services	175,643	205,175	22,250	42,016
Oilfield Services	2,375	3,214	312	1,369
Others	83	184	(7,970)	(7,560)
Total	178,101	208,573	14,592	35,825

The Group’s revenue of RM178.1 million was 14.6% lower than the preceding quarter’s revenue of RM208.6 million. This was mainly due to lower jack-up rigs utilisation of 86% as compared to 92% in the preceding quarter, due to two rigs undergoing mandatory 5-yearly special periodic survey (“SPS”) during the quarter.

As a result, the Group posted a lower profit before taxation of RM14.6 million in the current quarter against RM35.8 million profit before tax reported in the preceding quarter.

NOTE 16 – Review of Consolidated Statement of Financial Position

	As at 31/12/2019 RM'000	As at 31/12/2018 RM'000
Total assets	4,273,725	4,363,442
Total equity	2,803,409	2,798,502
Total liabilities	1,470,316	1,564,940
Total equity and liabilities	4,273,725	4,363,442

The decrease in total assets from RM4,363.4 million to RM4,273.7 million during the financial year ended 31st December 2019 was mainly due to the depreciation of RM198.4 million of the Group’s fixed assets. The deposit, cash and bank balances and other investments have reduced by RM40.7 million mainly due to the net repayment of borrowings amounting to RM137.9 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 RM113.4 million mainly from the SPS performed and completed for three jack-up rigs.

Total liabilities reduced by RM94.6 million 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 17 – Current Prospect

Drilling Services Segment

The current issues on the global economy and its growth continue to influence oil price. Growth prospects have softened as the Coronavirus outbreak concerns impact global energy demand forecast. Benchmark Brent oil price which earlier fell below USD55 per barrel, has since recovered some of its losses. OPEC+ is considering further supply cuts to support oil price.

Drilling activities have continued to increase with more contracts being tendered out and awarded, both locally and globally. Favourable daily charter rates and contract durations are also seen based on recently awarded domestic and regional contracts.

All seven of the Group's jack-up drilling rigs are currently contracted. NAGA 3, which is currently undergoing the mandatory SPS is scheduled to resume work under its existing contract. With our current order book of RM2.0 billion including options, our rig utilisation is expected to be sustained in 2020.

The outlook for hydraulic workover units is also improving with a number of tenders presently in progress due to the increase in demand for workover and plug and abandonment activities.

The continued demand for 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.

Oilfield Services Segment

The Oilfield services operations continued to show improvement. Notwithstanding this, the Group will continuously evaluate the viability of the only subsidiary in this segment which is based in China.

Group

Barring any unforeseen circumstances, based on the forecasted utilisation and favourable daily charter rates for the Group's assets, the Board expects an improved financial performance for the Group in 2020.

NOTE 18 – Statement on Revenue and Profit Forecast

This is not applicable to the Group.

NOTE 19 – Variance from Profit Forecast and Profit Guarantee

This is not applicable to the Group.

NOTE 20 – Taxation

	4th Quarter ended 31/12/2019 RM'000	Financial Year ended 31/12/2019 RM'000
Taxation for current period	3,182	8,495
Under provision in prior periods	328	262
	3,510	8,757
Deferred taxation	881	666
Total	4,391	9,423

Several companies in the Group were profitable and in tax payable position while the rest of the companies were in a loss position. Hence the tax charge of RM4,391,000 and RM9,423,000 for the current quarter and the financial year ended 31st December 2019, respectively.

NOTE 21 – Corporate Proposals

- (a) Shareholders of the Company have approved the establishment of 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") at an extraordinary general meeting convened on 31st October 2019.

On 1st November 2019, the Company has made the first offer of options under the ESOS to the executive director and eligible employees of the Company and its subsidiary companies (excluding subsidiary companies which are dormant). The number of options offered is 130,330,000 units with exercise price of RM0.33 per unit.

- (b) On 25th February 2020, on behalf of the Board of Directors of the Company, Affin Hwang Investment Bank Berhad had announced that the Company proposes to undertake a capital reduction exercise which entails the reduction and cancellation of RM2,210,000,000 of its issued share capital pursuant to Section 116 of the Companies Act, 2016 ("Act") ("Proposed Share Capital Reduction").

As at the latest practicable date, the issued share capital of the Company was RM4,054,817,171 comprising 8,215,600,000 ordinary shares of the Company. The credit of RM2,210,000,000 arising from the Proposed Share Capital Reduction will be used to eliminate the accumulated losses of the Company. The surplus after such elimination, if any, will be utilised in such manner as the Board may deem fit and as permitted by the relevant and applicable laws and the Constitution of the Company.

An order by the Court will be sought to approve the Proposed Share Capital Reduction, subject to the receipt of approval from our shareholders at an annual general meeting to be convened.

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

NOTE 22 – Group Borrowings and Debt Securities

	USD'000 borrowings	RM'000 equivalent/ borrowings
Short term borrowings		
- Secured		
Revolving credit	50,000	205,050
Term loans payable within 12 months	26,150	107,241
	<u>76,150</u>	<u>312,291</u>
Long term borrowings		
Secured		
- Long term loans	270,422	1,109,001
Term loans payable within 12 months	(26,150)	(107,241)
Less: Transaction cost		(20,799)
	<u>244,272</u>	<u>980,961</u>
Grand Total	<u><u>320,422</u></u>	<u><u>1,293,252</u></u>

NOTE 22 – Group Borrowings and Debt Securities (cont'd)

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	-	-	(16,287)	(16,287)
Repayment	-	-	(342,914)	(342,914)
	-	-	1,109,001	1,109,001
Transaction cost	-	-	(20,799)	(20,799)
Drawdown	205,050	-	-	205,050
Amount payable within 12 months	-	107,241	(107,241)	-
Closing Balance	205,050	107,241	980,961	1,293,252

NOTE 23 – Material Litigation

Reference is made to the previous announcements made by the Company on enforcement proceeding against Frontier Oil Corporation (“FOC”) by Velesto Drilling Sdn Bhd (“VED”), a wholly-owned subsidiary of the Company, at the Regional Trial Court, in Makati City, Philippines (“Makati Court”).

On 11 December 2019, the Makati Court had granted VED’s application for clarification and confidential treatment of information in the Petition for publication.

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 24 – Dividend

No dividend has been recommended for the period ended 31st December 2019.

NOTE 25 – Earnings Per Share

	Quarter Ended 31/12/2019	Quarter Ended 31/12/2018	(Unaudited) Financial Year Ended 31/12/2019	(Audited) Financial Year Ended 31/12/2018
Profit / (Loss) For The Period				
Attributable To:				
Equity Holders Of The Company (RM'000)	10,201	13,106	33,216	(19,528)
Weighted average number of ordinary shares in issue ('000)				
- Basic	8,215,600	8,125,218	8,215,600	8,125,218
Effects of dilution:				
Options under ESOS	1,225	-	1,225	-
- Diluted	8,216,825	8,125,218	8,216,825	8,125,218
Earnings / (Loss) Per Share Attributable To Equity Holders Of The Company:				
- Basic (Sen)	0.12	0.16	0.40	(0.24)
- Diluted (Sen)	0.12	0.16	0.40	(0.24)

NOTE 26 – 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 27 – Items to Disclose in the Statement of Comprehensive Income

	4th Quarter ended 31/12/2019 RM'000	Financial Year ended 31/12/2019 RM'000
(a) Interest income	1,003	3,940
(b) Other Investment Income	925	4,058
(c) Depreciation and amortisation	(51,981)	(198,387)
(d) Net loss on disposal of property, plant and equipment	(140)	(732)
(e) Net foreign exchange gain	2,196	1,978

By Order Of The Board

LEE MI RYOUNG
Secretary
(MAICSA 7058423)

Kuala Lumpur
25th February 2020