ERNST & YOUNG
AF: 0039

■ Chartered Accountants
4th Floor, Kompleks Antarabangsa
Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia

Mail Address:
P.O. Box 10068
50704 Kuala Lumpur, Malaysia

■ Phone : (03) 2144-2333
Fax : (03) 2141-0676
(03) 2144-5619
www.ey.com/my

ACCOUNTANTS' REPORT
(Prepared for inclusion in this Prospectus)

20 January 2004

The Board of Directors
Kejuruteraan Samudra Timur Berhad
23B Jalan 52/1
46200 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs

1.0 INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 28 January 2004 in connection with a Public Issue of 10,200,000 new ordinary shares of RM1 each in Kejuruteraan Samudra Timur Berhad (hereinafter referred as "KST" or "the Company"), *formerly known as Kejuruteraan Samudra Timur Sdn Bhd*, at an issue price of RM1.30 per ordinary share and the listing and quotation of the entire issued and paid-up share capital of KST comprising 40,000,000 ordinary shares of RM1 each on the Second Board of the Malaysia Securities Exchange Berhad.

2.0 GENERAL INFORMATION

2.1 The Company

The Company was incorporated in Malaysia on 16 July 1985 as a private limited company under the name of Intel Paint (M) Sdn Bhd. On 16 February 1987, the Company changed its name to Kejuruteraan Samudra Timur Sdn Bhd. On 16 January 2003, the Company was converted to a public limited company and assumed its present name.

The Company was incorporated with an authorized and issued and paid-up capital of RM1,000,000 comprising 1,000,000 ordinary shares of RM1 each respectively.

The principal activity of the Company is the provision of tubular handling equipment and running services to the oil and gas industry. These include services to ensure that tubulars are installed in the oil and gas wells according to their respective specifications.

2.0 GENERAL INFORMATION (CONT'D)

2.2 Flotation Scheme

(a) Bonus Issue

The Company made a Bonus Issue of 15,500,000 new ordinary shares of RM1 each on the basis of thirty one (31) new ordinary shares for every two (2) existing ordinary shares of RM1 each held in the Company by way of capitalisation of RM15.5 million from the retained earnings of the Company.

(b) Acquisition

The Company acquired 100% of the issued and paid-up share capital of Samudra Timur Sdn Bhd ("ST") comprising 1,000,000 ordinary shares of RM1 each for a purchase consideration of RM5.099 million to be satisfied by the issue and allotment of 4,635,691 new ordinary shares of RM1 each in the Company at an issue price of RM1.10 per ordinary share to the Vendors.

(c) Rights Issue

The Company made a Rights Issue of 8,664,309 new ordinary shares of RM1 each on the basis of approximately two (2) new ordinary shares for every five (5) existing ordinary shares held in the Company after the Bonus Issue and Acquisition at an issue price of RM1.05 per share.

(d) Public Issue

The Company will make a Public Issue of 10,200,000 new ordinary shares of RM1 each at an issue price of RM1.30 per share.

2.0 GENERAL INFORMATION (CONT'D)

2.2 Flotation Scheme (cont'd)

On completion of the Bonus Issue, Acquisition, Rights Issue and Public Issue (collectively referred to as the "Flotation Scheme"), the issued and fully paid-up share capital of KST will increase from 1,000,000 ordinary shares of RM1 each to 40,000,000 ordinary shares of RM1 each analysed as follows:-

Issued and fully paid-up share capital	**RM**
Based on the audited financial statements as at 31 July 2003	1,000,000
Bonus Issue	15,500,000
Acquisition	4,635,691
Rights Issue	8,664,309
Public Issue	10,200,000
On completion of Flotation Scheme	40,000,000

2.3 Subsidiary Company – ST

On 31 October 2003, the Company acquired ST as a wholly owned subsidiary pursuant to the Flotation Scheme. KST and ST are hereinafter referred to as "the Group".

ST was incorporated in Malaysia on 3 March 1983 as an exempt private limited company.

The authorized and issued and paid-up capital as at 31 July 2003 is RM1,000,000 comprising 1,000,000 ordinary shares of RM1 each respectively.

The principal activity of ST is the provision of tubular inspection and maintenance services in the oil and gas industry.

3.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This report is based on the audited financial statements which have been prepared in compliance with applicable Approved Accounting Standards in Malaysia and is presented on a basis consistent with the accounting policies normally adopted by the Group.

During the financial period ended 31 July 2003, KST and ST adopted the Malaysian Accounting Standard Board's (MASB) Standard No. 25 – Income Taxes to comply with the requirements of applicable Approved Accounting Standards in Malaysia.

4.0 AUDITORS, FINANCIAL STATEMENTS AND FINANCIAL ACCOUNTING DATES

We have been appointed as auditors of the Company and subsidiary company with effect from the financial year ended 31 December 2002. We have reported on the financial statements of the Company and its subsidiary company for the relevant financial periods in which we have acted as auditors without qualification. Our Auditor's Reports did not include any emphasis of matter.

The financial statements of the Company and its subsidiary company prior to our appointment as auditors for the relevant periods under review were audited by another firm of chartered accountants who have reported on the financial statements for the relevant periods without qualification. In addition, the Auditor's Reports on the Company and its subsidiary company did not include any emphasis of matter.

In the relevant financial periods under review, the financial accounting date of the subsidiary company is coterminous with the Company, which is 31 December.

5.0 SUMMARISED INCOME STATEMENTS

5.1 Proforma Group

The summarised income statements of the Proforma Group (prior to the acquisition of ST by the Company in October 2003) set out below are based on the audited financial statements of KST and its subsidiary company and have been presented on the basis that the Acquisition of Samudra Timur Sdn Bhd had been in effect throughout the relevant periods under review:-

	<---- Year ended 31 December ----				>	7 months ended 31 July 2003
	1998	1999	2000	2001	2002	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue*	9,745	11,711	12,269	13,243	29,262	15,709
Profit before depreciation and interest	3,592	6,294	6,175	5,750	14,602	10,576
Depreciation	(1,620)	(1,821)	(1,923)	(2,485)	(3,398)	(2,329)
Interest expense	(984)	(724)	(595)	(741)	(873)	(416)
Profit before taxation	988	3,749	3,657	2,524	10,331	7,831
Taxation	(1,260)	(72)	(1,032)	(1,070)	(3,100)	(3,204)
(Loss)/Profit after taxation	(272)	3,677	2,625	1,454	7,231	4,627
No. of ordinary shares** ('000)	2,000	2,000	2,000	2,000	2,000	2,000
Earnings per share (RM)	(0.14)	1.84	1.31	0.73	3.62	2.31

* *Net revenue after deducting inter-company sales*
** *Aggregate historical paid-up capital of the Group*

Notes:-

(1) ST revenue for years 1998 and 1999 had been restated to exclude commission income of RM28,695 and RM169,941 respectively to be consistent with subsequent year (2000, 2001 and 2002) presentation of the audited financial statements.

(2) ST revenue had also been restated to include rental income for years 1998 and 1999 of RM109,664 and RM112,422 respectively to conform with subsequent year (2000, 2001 and 2002) presentation of the audited financial statements.

(3) No provision for taxation has been made in 1999 as income earned in basis year 1999 is exempted from tax in accordance with the provisions of the Income Tax (Amendment) Act 1999.

The taxation charge in 1999 relates to deferred taxation based on profit for the year and over-provision of taxation in prior years.

(4) There were no extraordinary items in the relevant years under review.

(5) The earnings per share of the Proforma Group is calculated based on the profit after taxation and on the combined share capital of KST and ST of 2,000,000 ordinary shares of RM1 each.

5.2 KST (Company level)

	<-----	Year ended 31 December			----->	7 months ended 31 July 2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Revenue	7,012	9,085	9,707	10,297	25,539	14,072
Profit before depreciation and interest	4,466	5,814	5,449	4,786	13,858	10,142
Depreciation	(1,007)	(1,226)	(1,331)	(1,919)	(2,824)	(1,996)
Interest expense	(508)	(498)	(471)	(675)	(846)	(411)
Profit before taxation	2,951	4,090	3,647	2,192	10,188	7,735
Taxation	(1,260)	(73)	(1,031)	(1,070)	(3,100)	(3,240)
Profit after taxation	1,691	4,017	2,616	1,122	7,088	4,495
No. of ordinary shares ('000)	1,000	1,000	1,000	1,000	1,000	1,000
Earnings per share (RM)	1.69	4.02	2.62	1.12	7.09	4.50

Notes:-

(1) No provision for taxation has been made in 1999 for the Company as income earned in basis year 1999 is exempted from tax in accordance with the provisions of the Income Tax (Amendment) Act 1999. The taxation charge in 1999 relates to deferred taxation based on profit for the year and over-provision of taxation in prior years.

(2) There were no extraordinary items in the relevant years under review.

(3) The earnings per share is calculated based on the profit after taxation and on the number of ordinary shares in issue in the relevant years under review.

5.3 ST (Company level)

	<------------------	Year ended 31 December	------------------	------------------	------------------>	7 months ended 31 July 2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Revenue	2,736	2,631	2,628	3,007	3,793	1,693
(Loss)/Profit before depreciation and interest	(874)	480	726	964	744	434
Depreciation	(613)	(595)	(592)	(566)	(574)	(333)
Interest expense	(476)	(226)	(124)	(66)	(27)	(5)
(Loss)/Profit before taxation	(1,963)	(341)	10	332	143	96
Taxation	-	1	(1)	-	-	36
(Loss)/Profit after taxation	(1,963)	(340)	9	332	143	132
No. of ordinary shares ('000)	1,000	1,000	1,000	1,000	1,000	1,000
Earnings per share (RM)	(1.96)	(0.34)	0.01	0.33	0.14	0.13

Notes:-

(1) ST revenue for years 1998 and 1999 had been restated to exclude commission income of RM28,695 and RM169,941 respectively to be consistent with subsequent year presentation of audited financial statements.

(2) ST revenue had also been restated to include rental income for years 1998 and 1999 of RM109,664 and RM112,422 respectively to conform with current year presentation of the audited financial statements.

(3) No provision for taxation has been made in 1999 as income earned in basis year 1999 is exempted from tax in accordance with the provisions of the Income Tax (Amendment) Act 1999.

(4) There were no extraordinary items in the relevant years under review.

(5) The earnings per share is calculated based on the profit after taxation and on the number of ordinary shares in issue in the relevant years under review.

6.0 DIVIDENDS

No dividend has been paid and declared by KST and ST during the relevant years under review.

7.0 SUMMARISED BALANCE SHEETS

The balance sheets of the Company and its subsidiary company are based on the audited financial statements for the relevant periods under review are summarised, after making such reclassifications for comparative purposes where applicable, as set out below.

As the purchase consideration for the Acquisition of ST is calculated on Net Tangible Assets based on the audited financial statements of the subsidiary company as at 31 December 2002, it is therefore impracticable to present the proforma balance sheets of the Group throughout the years under review. Accordingly, proforma balance sheets of the Group has only been presented for illustrative purposes in respect of 31 July 2003 based on the latest audited financial statements of assets and liabilities as at 31 July 2003 as shown in Section 8 of this report.

7.1 KST (Company level)

	<--- As at 31 December 1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000 --->	As at 31 July 2003 RM'000
Assets employed:-						
Property, plant and equipment	8,839	8,285	9,466	22,250	30,894	29,048
Associated company	-	651	651	*	-	-
Current assets	1,577	2,634	5,237	6,916	6,411	9,538
Current liabilities	(4,448)	(3,189)	(3,176)	(8,464)	(8,382)	(6,227)
Net current assets/(liabilities)	(2,871)	(555)	2,061	(1,548)	(1,971)	3,311
Deferred and long term liabilities	(3,232)	(1,628)	(2,809)	(5,846)	(6,978)	(5,919)
Net assets	2,736	6,753	9,369	14,856	21,945	26,440
Financed by:-						
Share capital	1,000	1,000	1,000	1,000	1,000	1,000
Revaluation reserve	-	-	-	4,366	4,366	4,366
Retained profits	1,736	5,753	8,369	9,490	16,579	21,074
	2,736	6,753	9,369	14,856	21,945	26,440
Net tangible assets per share (RM)	2.74	6.75	9.37	14.86	21.95	26.44

* RM1

Notes:-

(1) Equipment and accessories of KST were revalued by the directors on 24 October 2001 based on an independent valuation carried out by a firm of professional valuers, Harper Wira Insurance Surveyors and Adjusters Sdn Bhd using the depreciated replacement cost basis in respect of the financial year ended 2001.

Arising from the above, a prior year adjustment was made in financial year ended 2002 relating to tax applicable on the surplus arising from revaluation of equipment and accessories amounting to RM1,700,000 which has been credited to deferred taxation account.

(2) A provision for diminution in value of investment in associated company, Goldex Bricks Sdn Bhd ("GBSB") was made in financial year ended 2001. During the financial year 2002, the investment in GSSB was disposed of, for a consideration of RM1.

7.2 ST (Company level)

	<-----As at 31 December				----->	As at 31
	1998	1999	2000	2001	2002	July 2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets employed:-						
Property, plant and equipment	6,298	5,699	5,145	4,476	3,986	3,681
Other investment	60	60	60	60	60	60
Current assets	1,776	1,000	1,154	1,676	1,435	1,735
Current liabilities	(2,700)	(1,946)	(1,635)	(1,196)	(350)	(267)
Net current (liabilities) / assets	(924)	(946)	(481)	480	1,085	1,468
Deferred and long term liabilities	(538)	(257)	(159)	(119)	(167)	(462)
Net assets	4,896	4,556	4,565	4,897	4,964	4,747
Financed by:-						
Share capital	1,000	1,000	1,000	1,000	1,000	1,000
Revaluation reserve	1,518	1,518	1,518	1,518	1,442	1,093
Retained profits	2,378	2,038	2,047	2,379	2,522	2,654
	4,896	4,556	4,565	4,897	4,964	4,747
Net tangible assets per share (RM)	4.90	4.56	4.57	4.90	4.96	4.75

Notes:-

(1) The leasehold land and building of ST was revalued by the directors on 5 January 1995 followed by an update valuation on 21 April 1999, based on independent valuations carried out by a firm of professional valuers, Khong & Jaafar Sdn Bhd, using the open market value basis.

Arising from the above, a prior year adjustment was made in the financial year ended 2002 relating to tax applicable on the surplus arising from revaluation of the land and building amounting to RM76,000 which has been credited to deferred taxation account.

8.0 DETAILED PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The detailed Proforma Statement of Assets and Liabilities ("Statements") set out below are provided for illustrative purposes only and are based on the audited financial statements of KST and its subsidiary company, ST ("Proforma Group") as at 31 July 2003 to show the effects of the Flotation Scheme had it been effected on 31 July 2003. The Statements are to be read in conjunction with the notes thereto:-

		<----- Company ------>		<----------- Proforma Group ----------->		
		Audited as at 31 July 2003	After Bonus Issue (I)	After (I) and Acquisition (II)	After (II) and Rights Issue (III)	After (III) and Public Issue (IV)
		RM'000	RM'000	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	B	29,048	29,048	32,729	32,729	32,729
OTHER INVESTMENT		-	-	60	60	60
CURRENT ASSETS	C	9,538	9,538	10,724	19,822	31,482
CURRENT LIABILITIES	D	6,227	6,227	5,944	5,944	5,944
NET CURRENT ASSETS		3,311	3,311	4,780	13,878	25,538
		32,359	32,359	37,569	46,667	58,327
SHARE CAPITAL	E	1,000	16,500	21,136	29,800	40,000
RESERVES	F	25,440	9,940	10,051	10,485	11,945
SHAREHOLDERS' FUNDS		26,440	26,440	31,187	40,285	51,945
DEFERRED & LONG TERM LIABILITIES	G	5,919	5,919	6,382	6,382	6,382
		32,359	32,359	37,569	46,667	58,327
NET TANGIBLE ASSETS PER SHARE (RM)		26.44	1.60	1.48	1.35	1.30

9.0 NOTES TO THE DETAILED PROFORMA STATEMENT OF ASSETS AND LIABILITIES

A. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and the Company have been prepared under the historical cost convention except for the revaluation of leasehold land and building, and certain equipment and accessories included within property, plant and equipment.

The financial statements comply with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia.

During the financial period ended 31 July 2003, the Company and ST adopted MASB 25 - Income Taxes for the first time. The adoption of MASB 25 has not given rise to any material adjustment to the opening balances of the retained profits of the prior year.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. Goodwill or reserve on consolidation represents the difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Intra Group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 9 A (j).

Certain equipment and accessories, and leasehold land and building are stated at valuation less any identified impairment losses. Revaluations are made at least once in every five years based on a valuation by an independent professional valuer on a depreciated replacement cost basis for equipment and accessories and open market value basis for leasehold land and building. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent of the decrease previously charged. A revaluation decrease is first offset against an increase on earlier valuation in respect of the same asset and is thereafter recognised as an expense. Upon the disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

Leasehold land and buildings are depreciated over the remaining lease period.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:-

Equipment and Accessories	10%
Plant and Machinery	10%
Renovation	10%
Office equipment, furniture and fittings	10% - 33.33%
Motor vehicles	15% - 20%
Tools and Portable Cabin	20% - 33.33%

(d) Inventories

Inventories comprising consumables and spares are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value.

In arriving at net realizable value, due allowance has been made for obsolete items.

(e) Hire Purchase

Assets held under hire purchase contracts, which are those where substantially all risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet. The equipment and accessories under hire purchase are depreciated on the same basis as other equipment and accessories as set out in (c) above.

Interest is charged to the income statement using the "sum-of-digits" method.

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Other Investment

Other investment is held on a long term basis. This is shown at cost unless in the opinion of the Directors, there is a permanent diminution in value in which case, provision is made for the diminution in value.

(g) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

Prior to the adoption of MASB 25 - Income Taxes on 1 January 2003, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation.

(h) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Revenue from services rendered is recognised based on the invoiced value on accrual basis upon performance of services.

Rental income is recognised on an accrual basis.

Interest income is recognised as it accrues on a time proportion basis.

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Foreign Currencies

Transactions in foreign currencies are recorded in Ringgit Malaysia at the approximate rates of exchange ruling at the date of the transactions. Foreign currency assets and liabilities are translated at the approximate rates of exchange ruling at the balance sheet date. All profits and losses on exchange are included in the income statement.

Unrealised losses on exchange are fully provided for but unrealised gains are not taken up.

The average exchange rates used for principal foreign currency translations during the financial period are as follows:

	RM
1 United States dollar	3.80
1 Singapore dollar	2.20

(j) Impairment of Assets

At each balance sheet date, the Company reviews the carrying amounts of its assets, other than inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits and financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognized revaluation surplus for the same asset.

(k) Cash and Cash Equivalents

Cash and cash equivalents as stated in the cash flow statement comprise cash and bank balances, fixed deposits which are not pledged and other short term highly liquid investments that are readily convertible into cash with insignificant risk of changes in value, against which outstanding bank overdrafts, if any, are deducted.

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Financial Instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and the liability simultaneously.

(i) Trade Receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(ii) Trade Payables

Trade payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iii) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs are charged to income statement as an expense in the period in which they are incurred.

(iv) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

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B. PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment of the Proforma Group as at 31 July 2003 is analysed as follows:-

	Leasehold Land and Buildings RM'000	Equipment and Accessories RM'000	Plant and Machinery RM'000	Renovation RM'000	Office Equipment, Furniture and Fittings RM'000	Motor Vehicles RM'000	Tools and Portable Cabin RM'000	Total RM'000
COST / VALUATION								
At 1 January 2003	2,514	33,722	5,196	132	300	229	59	42,152
Additions	-	38	11	-	63	67	-	179
Written off	-	-	-	-	(1)	-	-	(1)
At 31 July 2003	2,514	33,760	5,207	132	362	296	59	42,330
ACCUMULATED DEPRECIATION								
At 1 January 2003	192	3,251	3,312	132	222	104	59	7,272
Additions	17	1,968	303	-	15	26	-	2,329
Written off	-	-	-	-	-	-	-	-
At 31 July 2003	209	5,219	3,615	132	237	130	59	9,601
NET BOOK VALUE								
At 31 July 2003	2,305	28,541	1,592	-	125	166	-	32,729

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B. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

The analysis of cost and valuation is as follows:-

	Leasehold Land and Buildings RM'000	Equipment and Accessories RM'000	Plant and Machinery RM'000	Renovation RM'000	Office Equipment, Furniture and Fittings RM'000	Motor Vehicles RM'000	Tools and Portable Cabin RM'000	Total RM'000
At cost	314	12,548	5,207	132	362	296	59	18,918
At valuation	2,200	21,212	-	-	-	-	-	23,412
	2,514	33,760	5,207	132	362	296	59	42,330

(i) The equipment and accessories of KST were revalued by the Directors on 24 October 2001 based on an independent professional valuation carried out on a depreciated replacement cost basis.

The net book value of the equipment and accessories that would otherwise be stated in the financial statements, had the equipment and accessories been carried at cost less accumulated depreciation, amounted to RM10,888,030.

(ii) The leasehold land and building of ST was revalued by the Directors on 5 January 1995 followed by an update valuation on 21 April 1999 based on independent professional valuation carried out on an open market basis.

The net book value of the leasehold land and building that would otherwise be stated in the financial statements, had the property been carried at cost less accumulated depreciation, amounted to RM670,654.

(iii) The leasehold land and buildings of the Group have been pledged as security for borrowing facilities extended by financial institutions to the Group.

(iv) Included in property, plant and equipment of the Group are equipment and accessories and motor vehicles with an aggregate net book value of RM4,831,751 acquired under hire purchase.

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C. CURRENT ASSETS

	<------ Company ------->		<------------ Proforma Group ----------->		
	Audited as at 31 July 2003	After Bonus Issue (I)	After (I) and Acquisition (II)	After (II) and Rights Issue (III)	After (III) and Public Issue (IV)
	RM'000	RM'000	RM'000	RM'000	RM'000
Inventories	1,020	1,020	1,020	1,020	1,020
Trade receivables (Note a)	4,205	4,205	4,951	4,951	4,951
Other receivables	1,706	1,706	1,754	1,754	1,287
Tax recoverable	-	-	45	45	45
Deposits placed with licensed banks (Note b)	2,307	2,307	2,544	2,544	2,544
Cash and bank balances	300	300	410	9,508	21,635
	9,538	9,538	10,724	19,822	31,482

(a) Trade receivables

The Company has a significant concentration of credit risk in the form of trade debts due from three customers representing approximately 83% of the Company's total trade receivables.

The Directors have confirmed that the provision of RM225,201 as at 31 July 2003 has fully taken into account trade debts under litigation, in dispute and/or amounts outstanding for more than six months from the balance sheet date, after deducting subsequent collections received up to the issue date of this report.

(b) Deposits placed with licensed banks

The fixed deposits are pledged to banks as security for borrowing facilities granted to the Group.

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D. CURRENT LIABILITIES

	<------ Company ------->		<----------- Proforma Group ----------->		
	Audited as at 31 July 2003	After Bonus Issue (I)	After (I) and Acquisition (II)	After (II) and Rights Issue (III)	After (III) and Public Issue (IV)
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	327	327	421	421	421
Other payables (Note a)	859	859	454	454	454
Hire purchase payables (Note b)	1,754	1,754	1,754	1,754	1,754
Bank borrowings (Note c)	2,400	2,400	2,428	2,428	2,428
Provision for taxation	887	887	887	887	887
	6,227	6,227	5,944	5,944	5,944

(a) Other payables

Included in other payables is an amount of RM65,174 owing to Gem Travel & Tours Sdn. Bhd., a company in which a director has interest.

The amount owing is unsecured, interest free and has no fixed term of repayment.

(b) Hire purchase payables

	Proforma Group As at 31.07.03 RM'000
Hire purchase payable	
- not later than one year	1,831
- later than one year and not later than five years	54
	1,885
Hire purchase interest allocated to future periods	(80)
Present value of hire purchase payables	1,805
Representing:	
Payable not later than one year	1,754
Payable later than one year and not later than five years (Note G)	51
	1,805

D. CURRENT LIABILITIES (CONTD.)

(c) Bank borrowings

	Proforma Group As at 31.07.03 RM'000
Term loans	3,840
- repayable after twelve months (Note G)	(1,412)
- repayable within twelve months	2,428

The term loans provided by the financial institutions to the Group are secured by way of:-

(i) first, second and third legal charges over the leasehold land and buildings of the Group ;

(ii) fixed deposits of the Group pledged to the financial institution;

(iii) debenture incorporating a fixed and floating charge over the KST's fixed and floating assets, both present and future; and

(iv) joint and several guarantee by certain Directors of the Group.

E. SHARE CAPITAL

	<----- Company ------->		<---------- Proforma Group ------------>		
	Audited as at 31 July 2003	After Bonus Issue (I)	After (I) and Acquisition (II)	After (II) and Rights Issue (III)	After (III) and Public Issue (IV)
	RM'000	RM'000	RM'000	RM'000	RM'000
Authorised:					
Ordinary shares of RM1 each	1,000	100,000	100,000	100,000	100,000
Issued and fully-paid:					
Ordinary shares of RM1 each	1,000	16,500	21,136	29,800	40,000

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F. RESERVES

Analysis of reserves as at 31 July 2003 is as follows:-

	Share Premium	Asset Revaluation Reserve *	Retained Profits	Total
	RM'000	RM'000	RM'000	RM'000
As per audited financial statements as at 31 July 2003	-	4,366	21,074	25,440
Less: Bonus issue	-	-	(15,500)	(15,500)
After Bonus Issue	-	4,366	5,574	9,940
Premium arising from Acquisition of ST	463	-	-	463
Less: Goodwill on consolidation of ST written off	-	-	(352)	(352)
After Acquisition	463	4,366	5,222	10,051
Premium arising from Rights Issue	434	-	-	434
After Rights Issue	897	4,366	5,222	10,485
Premium arising from Public Issue	3,060	-	-	3,060
Less: Listing expenses	(1,600)	-	-	(1,600)
After Public Issue	2,357	4,366	5,222	11,945

* The Asset Revaluation Reserve arises from a revaluation by the Directors of equipment and accessories (included within property, plant and equipment) of KST based on an independent professional valuation carried out on 24 October 2001.

G. DEFERRED AND LONG TERM LIABILITIES

	Company		Proforma Group		
	Audited as at 31 July 2003	After Bonus Issue (I)	After (I) and Acquisition (II)	After (II) and Rights Issue (III)	After (III) and Public Issue (IV)
	RM'000	RM'000	RM'000	RM'000	RM'000
Hire purchase payables (Note D (b))	51	51	51	51	51
Term loans (Note D (c))	1,338	1,338	1,412	1,412	1,412
Deferred taxation	4,530	4,530	4,919	4,919	4,919
	5,919	5,919	6,382	6,382	6,382

H. CONTINGENT LIABILITIES

The contingent liabilities of the Group and individual companies are as follows:-

(a) Group

	Proforma Group RM'000
As at 31 July 2003	-

(b) Company

(i) KST

	RM'000
As at 31 July 2003	-

(ii) ST

	RM'000
Corporate guarantees granted on behalf to KST:	
Bank guarantees to the extent of amount drawdown in respect of credit facilities granted to KST and secured via third party third legal charge of ST's leasehold land and building	2,300
Corporate guarantee to a financial institution in respect of hire purchase facilities granted to KST	1,285
As at 31 July 2003	3,585

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I. COMMITMENTS

	Proforma Group RM'000
Capital Expenditure	
Approved and contracted for:	
Property, plant and equipment	4,730
Renovation of office space	196
	4,926

J. FINANCIAL INSTRUMENTS

The Company's exposure to financial risks arising in the normal course of business are as set out below. The Company is not engaged in speculative transactions.

(i) Interest Rate Risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities.

The Company monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favourable rates.

(ii) Credit Risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. The Company does not have any significant or concentration of credit risk that may arise from exposure to a single debtor except as disclosed in Note C(a).

(iii) Currency Risk

The Company is not exposed to significant foreign currency risk as majority of the Company's transactions are denominated in Ringgit Malaysia.

The Company does not use any forward contracts to hedge against its exposure to foreign currency risk.

(iv) Liquidity Risk

The Company ensures that there are adequate funds to meet all their obligations in a timely and cost- effective manner.

(v) Fair Value

The carrying amounts of the financial assets and financial liabilities as reflected in the balance sheet approximate their respective net fair values.

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10.0 PROFORMA CASH FLOW STATEMENT

The proforma cash flow statement of Proforma Group set out below is based on the audited financial statements of KST and the audited financial statements of its subsidiary company as at 31 July 2003 and is presented on the basis that the Acquisition had been in effect throughout the periods under review:-

	7 months period ended 31.7.03 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	7,831
Adjustments for:-	
Depreciation of property, plant and equipment	2,329
Interest expense	416
Interest income	(32)
Provision for doubtful debts	72
Operating profit before working capital changes	10,616
Inventories	(438)
Receivables	(1,671)
Payables	(452)
Cash generated from operating activities	8,055
Interest income	32
Interest expense	(416)
Income tax paid	(2,165)
Net cash generated from operating activities	5,506
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(179)
Net increase in fixed deposits	(481)
Net cash used in investing activities	(660)

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10.0 PROFORMA CASH FLOW STATEMENT (CONT'D)

	7 months period ended 31.7.03 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Net repayment of term loan	(1,083)
Net repayment to hire purchase creditors	(2,327)
Net cash used in financing activities	(3,410)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,436
CASH AND CASH EQUIVALENTS AT 1 JANUARY 2003	(1,026)
CASH AND CASH EQUIVALENTS AT 31 JULY 2003	410

Cash and cash equivalents as at 31 July 2003 comprise the following:-

	RM'000
Fixed deposits with licensed banks	2,544
Cash and bank balances	410
	2,954
Less : Fixed deposits pledged with licensed banks	(2,544)
	410

11.0 ESTIMATED EXPENSES RELATING TO PROPOSED FLOTATION

Estimated expenses of RM1.6 million relating to the Bonus Issue, Acquisition, Rights Issue, and Public Issue have been debited against Share Premium in the Proforma Statement of Assets and Liabilities.

12.0 RIGHTS ISSUE AND PUBLIC ISSUE PROCEEDS

The cash proceeds of RM20.758 million (after deducting estimated listing expenses of RM1.6 million) from the Rights Issue and Public Issue will be utilised as follows:-

	RM'000
Repayment of bank borrowings and hire purchase facilities	5,462
Financing of tubular and drilling equipment	10,000
Financing of new and/or renovation of existing office space	1,200
Working capital	4,096
	20,758

13.0 PROFORMA NET TANGIBLE ASSETS COVER

Based on the Statement of Assets and Liabilities of the Proforma Group as at 31 July 2003, the proforma net tangible assets and enlarged share capital are derived as follows:-

(a) Net Tangible Assets

	As at 31.07.03 RM'000
Net Tangible Assets of the Company before Bonus Issue, Acquisition, Rights Issue and Public Issue	26,440
Add: Net assets of subsidiary company acquired	4,747
Add: Proceeds from Rights Issue and Public Issue	22,358
Less: Estimated Listing Expenses	(1,600)
	51,945

(b) Share Capital

	No. of shares
Enlarged issued and fully paid-up share capital on completion of the Flotation Scheme	40,000,000

Based on the proforma net tangible assets of RM51.945 million and the enlarged issued and fully paid-up share capital of 40,000,000 new ordinary shares of RM1 each, the proforma net tangible assets per share is RM1.30.

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14.0 EVENTS SUBSEQUENT TO BALANCE SHEET DATE, 31 JULY 2003

Based on the latest audited financial statements for the period ended 31 July 2003, no events have arisen subsequent to the balance sheet date which require disclosure in this report.

In addition, on 13 January 2004, the Securities Commission had approved the payment by KST of a tax-exempt dividend amounting to RM1.5 million which has not been accounted for in the Proforma Balance Sheet as at 31 July 2003.

15.0 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 July 2003.

Yours faithfully

ERNST & YOUNG
AF:0039
Chartered Accountants

Yeo Eng Seng
1212/12/04(J)
Partner

Kuala Lumpur, Malaysia

Signed copies of this document have been prepared in English and Bahasa Malaysia versions. In the event of any inconsistency between these, the English version shall prevail.