

THIS ABRIDGED PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately. All enquiries concerning the Rights Issue of Warrants (as defined herein), which is the subject of this Abridged Prospectus, should be addressed to the Share Registrar of Kejuruteraan Samudra Timur Berhad ("KSTB" or "Company"), Securities Services (Holdings) Sdn Bhd at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur. Shareholders of KSTB whose names appear in KSTB's Record of Depositors maintained by Bursa Malaysia Depository Sdn Bhd ("Bursa Depository") at 5.00 p.m. on 7 December 2012 will be entitled to the Rights Issue of Warrants ("Entitled Shareholders").

This Abridged Prospectus, together with the Rights Subscription Form ("RSF") and Notice of Provisional Allotment ("NPA"), are not intended to be issued, circulated or distributed in countries or jurisdictions other than Malaysia and no action has been or will be taken to ensure that the Rights Issue of Warrants complies with the laws of any countries or jurisdictions other than the laws of Malaysia. Entitled Shareholders and/or their renounee(s) (if applicable), who are residents in countries or jurisdictions other than Malaysia, should therefore immediately consult your legal advisers as to whether the acceptance or renunciation (as the case may be) of the provisional allotment of the Warrants (as defined herein) would result in the contravention of any laws of such countries or jurisdictions. Our Company and HwangDBS Investment Bank Berhad ("HwangDBS") shall not accept any responsibility or liability whatsoever, in the event that any acceptance or renunciation of provisional allotment of Warrants made by the Entitled Shareholders and/or their renounee(s) (if applicable) is or shall become illegal, unenforceable, voidable or void in such countries or jurisdictions.

FOR INFORMATION CONCERNING THE RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE "RISK FACTORS" AS SET OUT IN SECTION 5 OF THIS ABRIDGED PROSPECTUS.

A copy of this Abridged Prospectus has been registered with the Securities Commission ("SC"). The registration of this Abridged Prospectus should not be taken to indicate that the SC recommends the Rights Issue of Warrants or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Abridged Prospectus. The SC has not, in any way, considered the merits of the securities being offered for investment. A copy of this Abridged Prospectus, together with the accompanying RSF and NPA, has also been lodged with the Registrar of Companies, who takes no responsibility for its contents.

Approval has been obtained from our shareholders at an Extraordinary General Meeting held on 19 November 2012. Approval for the issue of the Warrants (as defined below) to non-resident shareholders pursuant to the Rights Issue of Warrants has been obtained from Bank Negara Malaysia, vide its letter dated 15 October 2012. Approval has been obtained from Bursa Malaysia Securities Berhad ("Bursa Securities"), vide its letter dated 29 October 2012, for the admission to the Official List of Bursa Securities and the listing of and quotation for all the new securities to be issued pursuant to the Rights Issue of Warrants. Admission to the Official List of Bursa Securities and quotation of the new securities are in no way reflective of the merits of the Rights Issue of Warrants.

The Directors of KSTB have seen and approved all the documentation relating to the Rights Issue of Warrants. They collectively and individually, accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable inquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted would make the statements in these documents false or misleading.

HwangDBS, being the Principal Adviser for the Rights Issue of Warrants, acknowledges that, based on all available information and to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts concerning the Rights Issue of Warrants.



KEJURUTERAAN SAMUDRA TIMUR BERHAD

(Company No.: 142241-X)

(Incorporated in Malaysia under the Companies Act 1965)

RENOUNCEABLE RIGHTS ISSUE OF 71,513,250 WARRANTS ("WARRANT(S)") AT AN ISSUE PRICE OF RM0.05 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.30 EACH IN KSTB HELD AT 5.00 P.M. ON 7 DECEMBER 2012 ("RIGHTS ISSUE OF WARRANTS")

Principal Adviser



INVESTMENT BANK

HWANGDBS INVESTMENT BANK BERHAD (14389-U)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

IMPORTANT RELEVANT DATES:

Entitlement Date	:	7 December 2012 at 5.00 p.m.
Last date and time for sale of provisional allotment	:	14 December 2012 at 5.00 p.m.
Last date and time for transfer of provisional allotment	:	19 December 2012 at 4.00 p.m.
Last date and time for acceptance and payment	:	*24 December 2012 at 5.00 p.m.
Last date and time for excess application and payment	:	*24 December 2012 at 5.00 p.m.

* or such later date and time as the Directors of KSTB may decide and announce not less than two (2) market days before the original closing date, subject to Bursa Securities' approval.

This Abridged Prospectus is dated 7 December 2012

THE SC AND BURSA SECURITIES SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF KSTB AND TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS ABRIDGED PROSPECTUS, MAKES NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS YOU MAY SUFFER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS ABRIDGED PROSPECTUS.

SHAREHOLDERS/ INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, SHAREHOLDERS/ INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN SHOULD CONSULT THEIR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

THE DISTRIBUTION OF THIS ABRIDGED PROSPECTUS, TOGETHER WITH THE NPA AND RSF (COLLECTIVELY THE "DOCUMENTS") ARE SUBJECT TO MALAYSIAN LAWS. KSTB AND HWANGDBS ARE NOT RESPONSIBLE FOR THE DISTRIBUTION OF THE DOCUMENTS OUTSIDE MALAYSIA. KSTB AND HWANGDBS HAVE NOT TAKEN ANY ACTION TO PERMIT AN OFFERING OF SECURITIES BASED ON THE DOCUMENTS OR THE DISTRIBUTION OF THE DOCUMENTS OUTSIDE MALAYSIA. THE DOCUMENTS MAY NOT BE USED FOR AN OFFER TO SELL OR AN INVITATION TO BUY SECURITIES IN ANY JURISDICTION OTHER THAN MALAYSIA. KSTB AND HWANGDBS REQUIRE YOU TO INFORM YOURSELF OF AND TO OBSERVE SUCH RESTRICTIONS.

THE DOCUMENTS HAVE BEEN PREPARED AND PUBLISHED SOLELY FOR THIS RIGHTS ISSUE OF WARRANTS UNDER THE LAWS OF MALAYSIA. THE COMPANY AND PRINCIPAL ADVISER HAVE NOT AUTHORISED ANYONE TO PROVIDE SHAREHOLDERS/INVESTORS WITH INFORMATION WHICH IS NOT CONTAINED IN THIS ABRIDGED PROSPECTUS.

INVESTORS ARE ADVISED TO NOTE THAT RECOURSE FOR FALSE AND MISLEADING STATEMENTS OR ACTS MADE IN CONNECTION WITH THIS ABRIDGED PROSPECTUS ARE DIRECTLY AVAILABLE THROUGH SECTIONS 248, 249 AND 357 OF THE CAPITAL MARKETS AND SERVICES ACT 2007 ("CMSA"). SECURITIES LISTED ON BURSA SECURITIES ARE OFFERED TO THE PUBLIC PREMISED ON FULL AND ACCURATE DISCLOSURE OF ALL MATERIAL INFORMATION CONCERNING THE ISSUE FOR WHICH ANY OF THE PERSONS SET OUT IN SECTION 236 OF THE CMSA , E.G. DIRECTORS AND ADVISERS, ARE RESPONSIBLE.

DEFINITIONS

Except where the context otherwise requires or where otherwise defined herein, the following definitions shall apply throughout this Abridged Prospectus, NPA and RSF.

Abridged Prospectus	: This Abridged Prospectus dated 7 December 2012 in relation to the Rights Issue of Warrants
Act	: Companies Act 1965, as amended from time to time and any re-enactment thereof
AGM	: Annual General Meeting
Announcement	: The announcement made on 24 September 2012 in relation to the Rights Issue of Warrants
BNM	: Bank Negara Malaysia
Board	: Board of Directors of KSTB
Bursa Depository	: Bursa Malaysia Depository Sdn Bhd (Company No.: 165570-W)
Bursa Securities	: Bursa Malaysia Securities Berhad (Company No.: 635998-W)
CDS	: Central Depository System, the system established and operated by Bursa Depository for the central handling of securities deposited with Bursa Depository
CDS Account(s)	: Account established by Bursa Depository for a depositor for the recording of deposit of securities and dealings in such securities by that depositor of securities
Central Depositories Act	: Securities Industry (Central Depositories) Act, 1991, as amended from time to time and any re-enactment thereof
Circular	: Circular to shareholders of KSTB in relation to the Rights Issue of Warrants dated 2 November 2012
CLO Facility	: Unsecured term loan facility under a Primary Collateralised Loan Obligation Programme of up to RM30.0 million entered into amongst the Issuer, RHB Investment Bank Berhad (Company No.: 19663-P) and KSTB
CLO Settlement	: Settlement of the outstanding CLO Facility amounting to RM30.0 million entered into with the Issuer and Trustee
CMSA	: Capital Markets and Services Act 2007, as amended from time to time and any re-enactment thereof
Code	: Malaysian Code on Take-Overs and Mergers 2010, as amended from time to time and any re-enactment thereof
Deed Poll	: The deed poll executed by KSTB on 26 November 2012 to constitute the Warrants and to govern the rights of holders of the Warrants
EGM	: Extraordinary General Meeting in relation to the Rights Issue of Warrants held on 19 November 2012
Entitled Shareholder(s)	: Shareholder(s) of KSTB whose name(s) appears in the ROD of the Company on the Entitlement Date

DEFINITIONS (*Cont'd*)

Entitlement Date	: 5.00 p.m on 7 December 2012, being the time and date on which the shareholders of KSTB must be registered in the ROD of KSTB in order to be entitled to participate in the Rights Issue of Warrants
EPS	: Earnings per Share
Foreign Shareholder(s)	: Entitled Shareholder(s) who have not provided an address in Malaysia for the service of documents to be issued for purposes of the Rights Issue of Warrants
FPE	: Financial period(s) ended/ending
FYE	: Financial year(s) ended/ending
HwangDBS or Principal Adviser	: HwangDBS Investment Bank Berhad (Company No.: 14389-U)
KSTB or Company	: Kejuruteraan Samudra Timur Berhad (Company No.: 142241-X)
KSTB Group or Group	: KSTB and its subsidiary companies, collectively
KSTB Share(s) or Share(s)	: Ordinary share(s) of RM0.30 each in KSTB
Issuer	: Prima Uno Berhad (Company No.: 739904-M), a special purpose company specially incorporated to issue asset-backed securities namely bonds pursuant to a Primary Collateralised Loan Obligations transaction and which was constituted upon terms and conditions set out in among others the trust deed dated 8 January 2007 entered into between Issuer and Trustee
Listing Requirements	: Main Market Listing Requirements of Bursa Securities, as amended from time to time
LAT	: Loss after taxation
LATMI	: Loss after taxation and non-controlling interest
LBT	: Loss before taxation
LPD	: 9 November 2012, being the latest practicable date prior to printing of this Abridged Prospectus
LPS	: Loss per share
M&A	: Memorandum and Articles of Association of KSTB
Market Day(s)	: Any day between Monday to Friday (both days inclusive), excluding public holidays, and on a day which Bursa Securities is open for the trading of securities
N/A	: Not applicable
NA	: Net assets
NTA	: Net tangible assets
NPA	: Notice of provisional allotment
Official List	: Means a list specifying all securities listed on the Main Market of Bursa Securities

DEFINITIONS (Cont'd)

OCTG	:	Oil Country Tubular Goods
PAT	:	Profit after taxation
PATMI	:	Profit after taxation and non-controlling interest
PBT	:	Profit before taxation
Price-Fixing Date	:	23 November 2012, being the date on which the exercise price for the Warrants has been fixed at RM0.30 per Warrant
Rights Issue of Warrants	:	Renounceable rights issue of 71,513,250 Warrants at an issue price of RM0.05 for each Warrant on the basis of one (1) Warrant for every two (2) existing KSTB Shares held at the Entitlement Date
ROD or Record of Depositors	:	A record of depositors provided by Bursa Depository to KSTB under Chapter 24.0 of the Rules of Bursa Depository
RM and sen	:	Ringgit Malaysia and sen respectively
RSF	:	Rights subscription form
Rules of Bursa Depository	:	The rules of Bursa Depository as issued pursuant to the Central Depositories Act, as amended from time to time
SC	:	Securities Commission Malaysia
Scenario 1	:	Assuming all the Entitled Shareholders and/or their renounee(s) subscribe in full for their respective entitlements under the Rights Issue of Warrants
Scenario 2	:	Assuming none of the Entitled Shareholders and their renounee(s), other than Dato' Chee Peck Kiat @ Chee Peck Jan, Innoteguh Sdn Bhd, Virtual Sphere Sdn Bhd and Trance Equity Sdn Bhd, subscribe in full for their respective entitlements under the Rights Issue of Warrants, as well as the entire balance of the "open-portion" of Warrants which are not subscribed for by the other Entitled Shareholders of KSTB in proportion to their respective shareholdings in KSTB
Sobena	:	Sobena Offshore Inc Sdn Bhd (Company No.: 137601-A), formerly a 51% subsidiary company of KSTB
Sobena Disposal	:	The disposal of 4,335,000 ordinary shares of RM1.00 each in Sobena, representing 51% equity interest in Sobena by KSTB for a total cash consideration of RM14.0 million via a Sale and Purchase of Shares Agreement dated 31 January 2012, which was completed on 25 June 2012
Trustee	:	Malaysian Trustees Berhad (Company No.: 21666-V), trustee for the Primary Collateralised Loan Obligations transaction
Undertakings	:	Letters of irrevocable undertakings from Dato' Chee Peck Kiat @ Chee Peck Jan, Innoteguh Sdn Bhd, Virtual Sphere Sdn Bhd and Trance Equity Sdn Bhd, to subscribe in full for their respective entitlements under the Rights Issue of Warrants, as well as the entire balance of the "open-portion" of Warrants not already subscribed for by the other Entitled Shareholders of KSTB in proportion to their respective shareholdings in KSTB
USD	:	United States Dollar

DEFINITIONS *(Cont'd)*

VWAP	:	Volume weighted average market price
Warrant(s)	:	71,513,250 warrants to be issued pursuant to the Rights Issue of Warrants
1 st CLO Settlement Payment	:	The sum of RM10.0 million pursuant to the CLO Settlement
2 nd CLO Settlement Payment	:	The sum of RM13.0 million pursuant to the CLO Settlement

Reference to “we”, “us”, “our” and “ourselves” are to our Company, and where the context otherwise requires, our subsidiaries. All references to “you” are to the Entitled Shareholders. Words denoting the singular shall, where applicable, include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and/or neuter gender and vice versa. References to persons shall include corporations.

Any reference to a time of day in this Abridged Prospectus shall be a reference to Malaysian time, unless otherwise stated.

Any discrepancy in the tables included in this Abridged Prospectus between the amounts listed, actual figures and the totals thereof are due to rounding.

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CORPORATE INFORMATION

**KEJURUTERAAN SAMUDRA TIMUR BERHAD***(Company No.: 142241-X)**(Incorporated in Malaysia under the Act)***BOARD OF DIRECTORS**

Name	Age	Address	Occupation	Nationality
Tan Sri Dato' Dr Syed Jalaludin bin Syed Salim <i>(Independent Non-Executive Chairman)</i>	68	No. 48 Jalan Cenderai Bangsar 59100 Kuala Lumpur Wilayah Persekutuan	Chairman	Malaysian
Dato' Nik Abdul Aziz bin Mohamed Kamil <i>(Independent Non-Executive Director / Deputy Chairman)</i>	69	No. 22 Jalan 14/54 Section 14 46100 Petaling Jaya Selangor Darul Ehsan	Director / Deputy Chairman	Malaysian
Mohammad bin Ayob <i>(Independent Non-Executive Director)</i>	70	D-02-02, Surian Condominium No. 1, Jalan PJU 7/12B Mutiarra Damansara 47810 Petaling Jaya Selangor Darul Ehsan	Director	Malaysian
Ishak @ Abd. Rahman bin Mohamad <i>(Independent Non-Executive Director)</i>	63	No. 31, Jalan SS20/10 Damansara Utama 47400 Petaling Jaya Selangor Darul Ehsan	Director	Malaysian
Tengku Aniza binti Tengku Ab. Hamid <i>(Non-Independent Non-Executive Director)</i>	52	No. 35, Jalan 12 Taman Tun Abdul Razak 68000 Ampang Selangor Darul Ehsan	Director	Malaysian
Darmendran Kunaretnam <i>(Non-Independent Executive Director)</i>	51	No. 1, Jalan 5/58A Gasing Indah 46000 Petaling Jaya Selangor Darul Ehsan	Director	Malaysian
Omn bin Mohd. Yusoff <i>(Non-Independent Executive Director)</i>	63	E-65-A, Jalan Cyberia 4 Cyberia Smarthomes Persiaran Multimedia 63000 Cyberjaya Selangor Darul Ehsan	Director	Malaysian
Leong Chee Keong <i>(Independent Non-Executive Director)</i>	63	No. 5, Jalan Manisan Satu Bukit Indah 58200 Kuala Lumpur Wilayah Persekutuan	Director	Malaysian

CORPORATE INFORMATION (Cont'd)

Chee Cheng Chun <i>(Non-Independent Executive Director)</i>	28	31-01 Mon't Kiara Damai Jalan Kiara 2 50480 Kuala Lumpur Wilayah Persekutuan	Director	Malaysian
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AUDIT COMMITTEE

Name	Directorship	Designation
Ishak @ Abd. Rahman bin Mohamad	Independent Non-Executive Director	Chairman
Dato' Nik Abdul Aziz bin Mohamed Kamil	Independent Non-Executive Director	Member
Mohammad bin Ayob	Independent Non-Executive Director	Member
Leong Chee Keong	Independent Non-Executive Director	Member

COMPANY SECRETARIES

Chua Siew Chuan (MAICSA 0777689)
No. 6, Jalan SS14/8E
Subang Jaya
47500 Petaling Jaya
Selangor Darul Ehsan
Tel: 03-2084 9000
Fax: 03-2094 9440 / 2095 0292

Chin Mun Yee (MAICSA 7019243)
No. 6 Jalan SS2/85
47300 Petaling Jaya
Selangor Darul Ehsan
Tel: 03-2084 9000
Fax: 03-2094 9940 / 2095 0292

REGISTERED OFFICE

Suite A-21-13A, Level 21
Menara UOA Bangsar
No. 5, Jalan Bangsar Utama 1
59000 Kuala Lumpur
Tel: 03-2282 4884
Fax: 03-2282 2113

CORPORATE OFFICE

Suite A-21-13A, Level 21
Menara UOA Bangsar
No. 5, Jalan Bangsar Utama 1
59000 Kuala Lumpur
Tel: 03-2282 4884
Fax: 03-2282 2113
Email: kstb@kstb.com.my
Website: www.kstb.com.my

**AUDITORS / REPORTING
ACCOUNTANTS**

Ernst & Young (AF 0039)
Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Tel: 03-7495 8000
Fax: 03-2095 9076

CORPORATE INFORMATION (Cont'd)

**SOLICITORS FOR THE RIGHTS ISSUE
OF WARRANTS**

Jeffery Wong, Noorul, Ho & Lim
Unit A1-2-5,
Solaris Dutamas, No. 1, Jalan Dutamas 1
50480 Kuala Lumpur
Tel: 03-6207 9809 / 6207 9810
Fax: 03-6207 9805

SHARE REGISTRAR

Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Tel: 03-2084 9000
Fax: 03-2094 9940 / 2095 0292

PRINCIPAL BANKER

Malayan Banking Berhad
MBB Dataran Maybank
Level 1, Mayban Finance Tower
No. 1, Jalan Maarof
59000 Kuala Lumpur
Tel: 03-2283 1020
Fax: 03-2282 2253

PRINCIPAL ADVISER

HwangDBS Investment Bank Berhad
Suite 23-01, 23rd Floor, Menara Keck Seng
203, Jalan Bukit Bintang
55100 Kuala Lumpur
Tel: 03-9195 6888
Fax: 03-9195 6900

STOCK EXCHANGE LISTING

Main Market of Bursa Securities

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KEJURUTERAAN SAMUDRA TIMUR BERHAD

(Company No.: 142241-X)

(Incorporated in Malaysia under the Act)

Registered Office:

Suite A-21-13A, Level 21
Menara UOA Bangsar
No. 5, Jalan Bangsar Utama 1
59000 Kuala Lumpur

7 December 2012

Board of Directors:

Tan Sri Dato' Dr Syed Jalaludin bin Syed Salim *(Independent Non-Executive Chairman)*
Dato' Nik Abdul Aziz bin Mohamed Kamil *(Independent Non-Executive Director / Deputy Chairman)*
Mohammad bin Ayob *(Independent Non-Executive Director)*
Ishak @ Abd. Rahman bin Mohamad *(Independent Non-Executive Director)*
Tengku Aniza binti Tengku Ab. Hamid *(Non-Independent Non-Executive Director)*
Darmendran Kunaretnam *(Non-Independent Executive Director)*
Leong Chee Keong *(Independent Non-Executive Director)*
Onn bin Mohd. Yusoff *(Non-Independent Executive Director)*
Chee Cheng Chun *(Non-Independent Executive Director)*

To: The Shareholders of Kejuruteraan Samudra Timur Berhad

Dear Sir/Madam,

RENOUNCEABLE RIGHTS ISSUE OF 71,513,250 WARRANTS AT AN ISSUE PRICE OF RM0.05 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING KSTB SHARES HELD AT 5.00 P.M. ON 7 DECEMBER 2012

1. INTRODUCTION

On 28 June 2012, the Board announced that KSTB had entered into a settlement agreement with the Issuer and Trustee, for the purposes of the CLO Settlement.

Concurrently, the Company also announced a change in utilisation of proceeds from the Sobena Disposal to partially fulfil the settlement conditions set out in the CLO Settlement and intends to raise funds to enable it to completely fulfil the conditions of the CLO Settlement.

On the same day, HwangDBS, on behalf of the Board, announced that the Company is proposing to undertake the following:

- (i) A renounceable rights issue of up to 71,513,250 new KSTB Shares and up to 107,269,875 warrants on the basis of two (2) rights shares with three (3) warrants for every four (4) existing KSTB Shares held by entitled shareholders of KSTB on an entitlement date to be determined later;
- (ii) An increase in the authorised share capital of the Company from RM90,000,000 comprising 300,000,000 KSTB Shares to RM501,000,000 comprising 1,670,000,000 KSTB Shares ("Proposed Increase in Authorised Share Capital"); and

(iii) Amendments to the M&A pursuant to the Proposed Increase in Authorised Share Capital.

(Collectively referred to as the “Initial Proposals”)

On 24 September 2012, HwangDBS, on behalf of the Board, announced that the Board has, after further deliberation and after taking into consideration improvement in cashflow generated/to be generated from the Company’s operations subsequent to the announcements on 28 June 2012, aborted the Initial Proposals and proposed to implement the Rights Issue of Warrants instead.

On 18 October 2012, HwangDBS, on behalf of the Board, announced that BNM has vide its letter dated 15 October 2012 approved the issuance of the Warrants to non-resident shareholders of the Company. The approval of BNM is not subject to any conditions.

On 30 October 2012, HwangDBS, on behalf of the Board, announced that Bursa Securities has vide its letter dated 29 October 2012 approved the following:-

- (a) admission to the Official List and listing and quotation of 71,513,250 Warrants to be issued pursuant to the Rights Issue of Warrants; and
- (b) listing of up to 71,513,250 new KSTB Shares to be issued pursuant to the exercise of the Warrants,

subject to, *inter-alia* the following conditions:-

Conditions Imposed	Status of Compliance
KSTB and HwangDBS must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Rights Issue of Warrants	To be complied
KSTB and HwangDBS to inform Bursa Securities upon the completion of the Rights Issue of Warrants	To be complied
KSTB to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities’ approval once the Rights Issue of Warrants is completed	To be complied
KSTB to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of Warrants as at the end of each quarter together with a detailed computation of listing fees payable	To be complied

The shareholders of KSTB approved the Rights Issue of Warrants at the EGM held on 19 November 2012. A certified true extract of the ordinary resolution approving the Rights Issue of Warrants passed by the shareholders of KSTB at the aforesaid EGM is set out in Appendix I of this Abridged Prospectus.

On 23 November 2012, HwangDBS, on behalf of the Board, announced that the:

- (i) exercise price of the Warrants has been fixed at RM0.30; and
- (ii) Entitlement Date has been fixed at 5.00 p.m. on 7 December 2012.

If you are in any doubt about this Abridged Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

2. DETAILS OF THE RIGHTS ISSUE OF WARRANTS AND OTHER CORPORATE PROPOSALS

2.1 Details of the Rights Issue of Warrants

This Rights Issue of Warrants entails a renounceable rights issue of 71,513,250 Warrants on the basis of one (1) Warrant for every two (2) KSTB Shares held by the Entitled Shareholders at the Entitlement Date at an issue price of RM0.05 per Warrant.

Based on the issued and paid-up share capital of KSTB as at LPD of RM42,907,950 comprising 143,026,500 KSTB Shares, the number of Warrants to be issued pursuant to the Rights Issue of Warrants is 71,513,250. Accordingly, the number of new KSTB Shares to be issued assuming full exercise of the Warrants is 71,513,250.

The Rights Issue of Warrants is renounceable in full or in part. Accordingly, Entitled Shareholders can subscribe for or renounce their entitlements to the Warrants in full or in part.

In order to raise the required funds as detailed in Section 4.2 of this Abridged Prospectus, the Company proposes to undertake the Rights Issue of Warrants on a full subscription basis and have procured the Undertakings as detailed in Section 2.5 of this Abridged Prospectus. As such, the Rights Issue of Warrants will not be undertaken on a minimum level of subscription basis.

The issue price for the Warrants of RM0.05 each is payable in full upon acceptance.

In determining your entitlement to this Rights Issue of Warrants, fractional entitlements, if any, will be disregarded and will be dealt with in such manner as the Board shall think expedient or in the interest of the Company.

The Rights Issue of Warrants is not undertaken on a minimum level of subscription basis. Any Warrant not taken up or allotted for any reasons, if any, will be made available for application under the excess Warrants application.

The Board reserves the right to allot any excess Warrants applied for under the RSF in such manner as it deems fit and expedient in the best interest of the Company. The Board also reserves the right to accept any excess Warrants application, in full or in part, without assigning any reason thereof. It is the intention of the Board to allot the excess Warrants, if any, on a fair and equitable basis and in the following priority:

- (i) firstly, to minimise the incidence of odd lots;
- (ii) secondly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on their respective shareholdings in KSTB as at the Entitlement Date;
- (iii) thirdly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application;
- (iv) fourthly, for allocation to renounee(s) who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application; and
- (v) lastly, in the event that there are still unsubscribed Warrants after allocating all the excess Warrants, the remaining unsubscribed Warrants will be subscribed by the substantial shareholders of KSTB, who have given the Undertakings in proportion to their respective shareholdings in KSTB.

As you are an Entitled Shareholder to this Rights Issue of Warrants, you will have enclosed with this Abridged Prospectus, the NPA in respect of the number of Warrants for which you are entitled to subscribe for under the terms of this Rights Issue of Warrants.

As the Warrants are prescribed securities under the CDS, they will be subject to the provisions of the Central Depositories Act and the Rules of Bursa Depository. No physical certificate will be issued to the Entitled Shareholders and/or their renounee(s). Accordingly, the Warrants to be issued will be allotted and credited directly into the respective CDS Accounts of the Entitled Shareholders and/or their renounee(s) who have successfully subscribed for the Warrants.

Within eight (8) Market Days from the last date for acceptance and payment of the Rights Issue of Warrants, or such other period as may be prescribed or allowed by Bursa Securities, KSTB must:

- (i) issue and allot the Warrants;
- (ii) despatch notices of allotment to the allottees; and
- (iii) apply for the quotation of the Warrants on the Main Market of Bursa Securities.

In respect of any exercise of the Warrants, within eight (8) Market Days after the date of receipt of the subscription form together with the requisite payment or such other period as may be prescribed or allowed by Bursa Securities, KSTB must:

- (i) issue and/or allot the KSTB Shares arising from the exercise of the Warrants;
- (ii) despatch a notice of allotment to the holder of the Warrants; and
- (iii) apply for the quotation of such new KSTB Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities.

No physical share certificate will be issued to those Warrant holders exercising their respective rights for the new KSTB Shares to be issued upon exercise of the Warrants.

The Warrants will be issued in registered form and constituted by the Deed Poll duly executed by KSTB.

2.2 Basis of determining the issue price and exercise price of the Warrants

The issue price of RM0.05 for each Warrant was determined by the Board after taking into consideration, *inter-alia*, the amount of proceeds required to be raised from the Rights Issue of Warrants, the market price as well as the historical volatility of the KSTB Shares.

The Board has on 23 November 2012 resolved to fix the exercise price of the Warrants at RM0.30 after taking into consideration, *inter-alia*, the 5-day VWAP of KSTB Shares up to and including 22 November 2012, being the Market Day immediately preceding the Price-Fixing Date, the market demand for KSTB Shares, the then prevailing market conditions and the par value of the KSTB Shares. The exercise price represents a premium of 41.71% to the 5-day VWAP of KSTB Shares up to and including 22 November 2012, being the Market Day immediately preceding the Price-Fixing Date, of approximately RM0.2117.

2.3 Ranking of the new KSTB Shares arising from the exercise of the Warrants

The holders of the Warrants will not be entitled to any voting rights or participation in any form of distribution and/or offer of further securities in KSTB until and unless such holders of the Warrants exercise their Warrants to subscribe for new KSTB Shares.

The new KSTB Shares to be issued upon exercise of the Warrants shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing KSTB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment of the new KSTB Shares arising from the exercise of the Warrants.

2.4 Salient terms of the Warrants

The salient terms of the Warrants are as follows:-

Issuer :	KSTB.
Issue Size :	71,513,250 Warrants.
Form and Denomination :	The Warrants shall be issued in registered form.
Board Lot :	For purpose of trading on Bursa Securities, a board lot of the Warrants shall be 100 units of the Warrants, or such denomination as may be determined from time to time by Bursa Securities
Exercise Rights :	Each Warrant entitles the registered holder to subscribe for one (1) new KSTB Share at any time during the Exercise Period and at the Exercise Price subject to adjustments in accordance with the provisions of the Deed Poll.
Exercise Period :	<p>The Warrants may be exercised at any time commencing on and including the date of issue of the Warrants until 5.00 p.m. on the Expiry Date.</p> <p>Any Warrants not exercised during the Exercise Period will thereafter lapse and cease to be valid for any purpose.</p>
Expiry Date :	A date being five (5) years from and including the date of issue of the Warrants, provided that if such day falls on a day which is not a Market Day, then on the preceding Market Day.
Exercise Price :	<p>The exercise price of the Warrants has been fixed at RM0.30. The registered holder of the Warrants shall pay cash equivalent to the exercise price for each Warrant held when subscribing for the new KSTB Share.</p> <p>The Exercise Price is subject to adjustments in accordance with the provisions of the Deed Poll.</p>
Mode of Exercise :	The registered holder of the Warrants shall pay cash for the Exercise Price when exercising the Warrants for new KSTB Shares.
Rights of Warrants :	The holders of the Warrants are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in the Company until and unless such holder of the Warrants are issued with new KSTB Shares arising from their exercise of the Warrants.
Status of the new KSTB Shares arising from the exercise of the Warrants :	The new KSTB Shares to be issued upon exercise of the Warrants shall, upon allotment and issue, be of the same class and rank pari passu in all respects with the then existing KSTB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment of the new KSTB Shares arising from the exercise of the Warrants.

Adjustments to the Exercise Price and/or number of Warrants :

The Exercise Price and number of Warrants in issue may be adjusted from time to time in accordance with the provisions of the Deed Poll.

Rights of the holders of the Warrants in the event of winding-up, compromise and/or arrangement :

Where a resolution has been passed by the Company for a members' voluntary winding-up or there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one or more companies:-

- (a) for the purpose of such a winding-up, compromise or arrangement (other than consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the holders of the Warrants or some persons designated by them for such purposes by special resolution, shall be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the holders of the Warrants; and
- (b) in any other case, every holder of the Warrants shall be entitled at any time within six (6) weeks after the passing of such resolution or the granting of the court order, by irrevocable surrender of his Warrants together with payment of the relevant subscription monies to elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the subscription rights represented by such Warrants and be entitled to receive out of the assets which would be available in liquidation if he had on such date been the holder of the new KSTB Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly.

Listing :

The approval from Bursa Securities for the admission of the Warrants to the Official List of Bursa Securities and for the listing of and quotation for the Warrants on the Main Market of Bursa Securities as well as the listing of up to 71,513,250 new ordinary shares of RM0.30 each to be issued pursuant to the exercise of the Warrants has been obtained, vide its letter dated 29 October 2012.

Transferability :

The Warrants shall be transferable in the manner provided under the Central Depositories Act and the Rules of Bursa Depository.

Deed Poll :

The Warrants will be constituted by the Deed Poll.

Governing Law :

Laws of Malaysia.

2.5 Substantial shareholders' Undertakings

As at the LPD, the following substantial shareholders of KSTB, namely Dato' Chee Peck Kiat @ Chee Peck Jan, Innoteguh Sdn Bhd, Virtual Sphere Sdn Bhd and Trance Equity Sdn Bhd, who collectively hold 83,228,340 KSTB Shares representing approximately 58.19% equity interest in KSTB have given irrevocable written undertakings to subscribe for:

- (i) the whole of their respective rights entitlements under the Rights Issue of Warrants as at the Entitlement Date; and
- (ii) the remaining Warrants to the extent which are not taken up or not validly taken up by other Entitled Shareholders and/or their renounee(s) under the Rights Issue of Warrants (including after excess Warrants applications) (“Open Portion”) in proportion to their respective shareholdings in KSTB as at the Entitlement Date.

The said substantial shareholders have further respectively confirmed that they have sufficient financial resources to take up the Warrants, which they have undertaken to subscribe for. HwangDBS has verified, to the extent possible, that they have sufficient financial resources to fulfil their Undertakings.

In view of the respective Undertakings, our Board is certain that the full subscription basis will be met. Accordingly, no underwriting arrangement is made for the Rights Issue of Warrants.

As at the LPD, the shareholdings of the substantial shareholders who have given their irrevocable undertakings to subscribe for their entitlements in full and the Open Portion are as follows:

Shareholder	Shareholdings as at LPD		Entitlement to Warrants as at LPD [^]		Total undertakings including remaining “open-portion” of Warrants as at LPD [^]		
	No of KSTB Shares held [#]	%	No. of Warrants	% [^]	No. of Warrants	%	RM*
Dato' Chee Peck Kiat @ Chee Peck Jan	34,292,900	23.98	17,146,450	23.98	29,465,890	41.20	1,473,294.50
Innoteguh Sdn Bhd	19,721,800	13.79	9,860,900	13.79	16,945,790	23.70	847,289.50
Virtual Sphere Sdn Bhd	16,491,640	11.53	8,245,820	11.53	14,170,300	19.81	708,515.00
Trance Equity Sdn Bhd	12,722,000	8.89	6,361,000	8.89	10,931,270	15.29	546,563.50
Total					71,513,250	100.00	3,575,662.50

Notes:-

Based on ROD as at the LPD.

[^] Based on the 71,513,250 Warrants to be issued pursuant to the Rights Issue of Warrants.

* Based on the issue price of RM0.05 per Warrant.

As at the LPD, Dato' Chee Peck Kiat @ Chee Peck Jan, Innoteguh Sdn Bhd, Virtual Sphere Sdn Bhd and Trance Equity Sdn Bhd each hold 23.98%, 13.79%, 11.53% and 8.89% of the equity interest in KSTB respectively. Assuming that Dato' Chee Peck Kiat @ Chee Peck Jan, Innoteguh Sdn Bhd, Virtual Sphere Sdn Bhd and Trance Equity Sdn Bhd are the only subscribers for the Rights Issue of Warrants, their shareholdings in KSTB could potentially increase as follows:-

Shareholder	Shareholdings as at LPD		After Rights Issue of Warrants		Assuming full exercise of Warrants	
	No of KSTB Shares held [#]	% held	No. of KSTB Shares held	% held	No. of KSTB Shares held	% held [^]
Dato' Chee Peck Kiat @ Chee Peck Jan	34,292,900	23.98	34,292,900	23.98	63,758,790 [^]	29.72 [^]
Innoteguh Sdn Bhd	19,721,800	13.79	19,721,800	13.79	36,667,590 [^]	17.09 [^]
Virtual Sphere Sdn Bhd	16,491,640	11.53	16,491,640	11.53	30,661,940 [^]	14.29 [^]
Trance Equity Sdn Bhd	12,722,000	8.89	12,722,000	8.89	23,653,270 [^]	11.03 [^]

Notes:-

Based on ROD as at the LPD.

^ Based on the enlarged share capital of 214,539,750 KSTB Shares assuming full exercise of Warrants pursuant to the Undertakings.

The exercise of Warrants (in full or in part) by the substantial shareholders of their Undertakings pursuant to the Rights Issue of Warrants is not expected to give rise to any consequences of mandatory take-over offer obligations under the Code.

2.6 Other corporate exercises

Save for the Rights Issue of Warrants which was approved by the shareholders at the EGM, there are no other corporate exercises by the Company which have been announced but yet to be implemented prior to the printing of this Abridged Prospectus.

3. PROCEDURES FOR APPLICATION AND PAYMENT

As you are an Entitled Shareholder, your CDS Account will be duly credited with the provisionally allotted Warrants, which you are entitled to subscribe for in full or in part under the terms of the Rights Issue of Warrants. You will find enclosed with this Abridged Prospectus, a NPA notifying you of the crediting of such provisionally allotted Warrants into your CDS Account and a RSF to enable you to subscribe for such provisionally allotted Warrants, as well as to apply for excess Warrants, if you choose to do so.

The provisional allotment of the Warrants are prescribed securities pursuant to Section 14(5) of the Central Depositories Act and therefore, all dealings in the provisional allotment of the Warrants will be by book entry through CDS Accounts and will be governed by the Central Depositories Act and the Rules of Bursa Depository. Entitled Shareholders and/or their renounee(s) (if applicable) are required to have valid and subsisting CDS Accounts when making their applications.

Full instructions for the application, acceptance and payment for the Warrants provisionally allotted to you and the procedures to be followed should you wish to dispose of all or part of your rights entitlements are set out in the RSF. You are advised to read this Abridged Prospectus, the RSF and the notes and instructions therein carefully.

3.1 Procedures for full acceptance by the Entitled Shareholders

Acceptance and payment for the Warrants provisionally allotted to the Entitled Shareholders and/or their renounee(s) (if applicable) must be made on the RSF and must be completed in accordance with the notes and instructions printed therein. Acceptances which do not strictly conform to the terms of this Abridged Prospectus or the RSF or the notes and instructions printed therein or which are illegible may not be accepted at the absolute discretion of our Company.

FULL INSTRUCTIONS FOR THE ACCEPTANCE OF AND PAYMENT FOR THE WARRANTS PROVISIONALLY ALLOTTED TO THE ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEE(S) (IF APPLICABLE) AND THE PROCEDURES TO BE FOLLOWED SHOULD THE ENTITLED SHAREHOLDERS WISH TO SELL/TRANSFER ALL OR ANY PART OF THEIR PROVISIONAL ENTITLEMENTS ARE SET OUT IN THE RSF. ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEE(S) (IF APPLICABLE) ARE ADVISED TO READ THE RSF AND THE NOTES AND INSTRUCTIONS THEREIN CAREFULLY.

Entitled Shareholders and/or their renounee(s) (if applicable) who wish to accept their provisional allotment in full are required to fill and complete Parts I(A) and II of the RSF, in accordance with the notes and instructions printed thereon. Each completed RSF, together with the relevant payment, must be despatched by ORDINARY POST, COURIER or DELIVERED BY HAND in the official envelope provided, to our Share Registrar at the following address:

Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Tel: 03-2084 9000
Fax: 03-2094 9940 / 2095 0292

so as to arrive not later than the last date and time for acceptance and payment as set out on the Cover Page of this Abridged Prospectus. Entitled Shareholders who lose, misplace or for any other reasons require another copy of the RSF, may obtain additional copies from Bursa Securities' website (<http://www.bursamalaysia.com>), our Share Registrar, as stated above, or the registered office of our Company at the following address:

Suite A-21-13A, Level 21
Menara UOA Bangsar
No. 5, Jalan Bangsar Utama 1
59000 Kuala Lumpur
Tel: 03-2282 4884
Fax: 03-2282 2113

One (1) RSF can only be used for acceptance of the provisionally allotted Warrants standing to the credit of one (1) CDS Account belonging to an Entitled Shareholder. An Entitled Shareholder is not allowed to instruct that the new Warrants to be credited into any securities account other than the CDS Account as stated in the completed RSF.

The minimum number of Warrants that can be accepted is one (1) Warrant. Fractions of Warrants arising will be dealt with on a fair and equitable basis and in such manner as our Board in its absolute discretion deems fit and expedient in the best interest of our Company, and such that the incidence of odd lots will be minimised.

Our Directors reserve the right not to accept any application or to accept any application in part only without assigning any reason thereof.

If acceptance and payment for the Warrants provisionally allotted to any Entitled Shareholder and/or their renounee(s) (if applicable) are not received by our Share Registrar by the last date and time for acceptance and payment as set out on the Cover Page of this Abridged Prospectus, such provisional allotment of Warrants will be deemed to have been declined and will be cancelled. Our Board will then have the right to allot such Warrants, which have not been taken up, to applicants applying for excess Warrants on a fair and equitable basis and in such manner as our Board in its absolute discretion deems fit and expedient in the best interest of our Company, and such that the incidence of odd lots will be minimised.

EACH COMPLETED RSF MUST BE ACCOMPANIED BY REMITTANCE IN RINGGIT MALAYSIA FOR THE FULL AMOUNT IN THE FORM OF BANKER'S DRAFT(S) OR CASHIER'S ORDER(S) OR MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA AND MUST BE MADE PAYABLE TO "KSTB WARRANTS ACCOUNT" CROSSED "ACCOUNT PAYEE ONLY" AND ENDORSED ON THE REVERSE SIDE, THE NAME, ADDRESS AND CDS ACCOUNT NUMBER OF THE APPLICANT IN BLOCK LETTERS.

PERSONAL CHEQUES OR OTHER MODE OF PAYMENT ARE NOT ACCEPTABLE. DETAILS OF REMITTANCES MUST BE FILLED IN THE APPROPRIATE BOXES PROVIDED IN THE RSF.

NO ACKNOWLEDGEMENT OF THE RECEIPT OF THE RSF OR APPLICATION MONIES IN RESPECT OF THE RIGHTS ISSUE OF WARRANTS WILL BE MADE BY OUR COMPANY OR OUR SHARE REGISTRAR. HOWEVER, NOTICES OF ALLOTMENT WILL BE DESPATCHED BY ORDINARY POST TO THE SUCCESSFUL APPLICANTS AT THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANTS' OWN RISK WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE OF ACCEPTANCE AND PAYMENT FOR THE WARRANTS.

ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEE(S) (IF APPLICABLE) SHOULD NOTE THAT THE RSF AND REMITTANCES SO LODGED WITH OUR SHARE REGISTRAR SHALL BE IRREVOCABLE AND CANNOT BE WITHDRAWN.

WHERE AN APPLICATION IS NOT ACCEPTED OR ACCEPTED IN PART ONLY, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONIES, AS THE CASE MAY BE, WILL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPACHED TO THE APPLICANT WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE OF ACCEPTANCE AND PAYMENT FOR THE WARRANTS BY ORDINARY POST TO THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANT'S OWN RISK. APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT.

3.2 Procedures for part acceptance by the Entitled Shareholders

Entitled Shareholders and/or their renounee(s) (if applicable) are entitled to accept part of their provisional allotment. The minimum amount of Warrants that can be accepted is one (1) Warrant.

Entitled Shareholders and/or their renounee(s) (if applicable) are required to fill and complete Part I(A) of the RSF by specifying the amount of Warrants which they are accepting and Part II of the RSF and deliver the completed RSF together with the relevant payment to our Share Registrar, in the same manner as set out in Section 3.1 of this Abridged Prospectus.

ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEE(S) (IF APPLICABLE) ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN.

The portion of the provisional allotment of Warrants that has not been accepted will be allotted to any other persons allowed under any law, regulations or rules to accept the transfer of the provisional allotment of Warrants and the balance, if any, will be allotted to applicants applying for the excess Warrants on a fair and equitable basis in such manner as our Board in its absolute discretion deems fit and expedient in the best interest of our Company, such that the incidence of odd lots will be minimised.

3.3 Procedures for sale/transfer of provisional allotment of Warrants

As the provisional allotment of Warrants are prescribed securities, Entitled Shareholders and/or their renounee(s) (if applicable) who wish to sell or transfer all or part of their provisional allotment of the Warrants to more than one (1) persons, may do so immediately through their stockbrokers without first having to request for a split of the provisional allotment of Warrants standing to the credit of their CDS Accounts. To sell all or part of their provisional allotment of Warrants, they may sell such provisional allotment of Warrants on the open market of Bursa Securities or transfer such provisional allotment of Warrants to such persons as may be allowed pursuant to the Rules of Bursa Depository.

In selling all or part of their provisional allotment of Warrants, the Entitled Shareholders and/or their renounee(s) (if applicable) need not deliver any document to their stockbrokers. The Entitled Shareholders and/or their renounee(s) (if applicable) are however advised to ensure that they have sufficient provisional allotment of Warrants standing to the credit of their CDS Accounts that are available for settlement of the sale or transfer.

If the Entitled Shareholders and/or their renounee(s) (if applicable) have sold or transferred only part of the provisional allotment of Warrants, the Entitled Shareholders and/or their renounee(s) (if applicable) may still accept the balance of the provisional allotment of Warrants by completing Parts I(A) and II of the RSF and deliver the completed RSF together with the relevant payment to our Share Registrar in the manner as set out in Section 3.1 of this Abridged Prospectus.

3.4 Procedures for acceptance by renounees

A renounee who wishes to accept the provisionally allotted Warrants must obtain a copy of the RSF from our Share Registrar, the registered office of our Company, or from Bursa Securities' website (<http://www.bursamalaysia.com>), complete the RSF and submit the same together with the remittance in accordance with the notes and instructions printed therein. The procedure and payment for the acceptance of the provisional allotment of Warrants by the renounee is the same as that which is applicable to the Entitled Shareholders as described in Section 3.1 of this Abridged Prospectus.

RENOONEES ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN.

3.5 Procedures for excess Warrants application

Entitled Shareholders and/or their renounee(s) (if applicable) who accept the provisionally allotted Warrants may apply for excess Warrants by completing Part I(B) of the RSF (in addition to Parts I(A) and II of the RSF) and forwarding it (together with a **separate remittance** for the full amount payable in respect of the excess Warrants applied for) to our Share Registrar at the following address:

Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Tel: 03-2084 9000
Fax: 03-2094 9940 / 2095 0292

so as to arrive not later than the last date and time for acceptance and payment as set out on the Cover Page of this Abridged Prospectus.

The basis of allocation for excess Warrants will be determined after the last day of application and payment for excess Warrants. Our Board reserves the right to allot any excess Warrants applied for under Part I(B) of the RSF on a fair and equitable basis and in such manner as our Board in its absolute discretion deems fit and expedient in the best interest of our Company, and such that the incidence of odd lots will be minimised. Hence, it is the intention of our Board to allot the excess Warrants in the following order of priority:

- (i) firstly, to minimise the incident of odd lots;
- (ii) secondly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on their respective shareholdings in KSTB as at the Entitlement Date;
- (iii) thirdly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application;
- (iv) fourthly, for allocation to renounee(s) who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application; and
- (v) lastly, in the event that there are still unsubscribed Warrants after allocating all the excess Warrants, the remaining unsubscribed Warrants will be subscribed by the substantial shareholders of KSTB, who have given the Undertakings in proportion to their respective shareholdings in KSTB.

PAYMENT FOR THE EXCESS WARRANTS APPLIED FOR SHOULD BE MADE IN THE SAME MANNER DESCRIBED IN SECTION 3.1 OF THIS ABRIDGED PROSPECTUS, EXCEPT THAT THE BANKER'S DRAFT(S) OR CASHIER'S ORDER(S) OR MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA SHOULD BE MADE PAYABLE TO "KSTB EXCESS WARRANTS ACCOUNT". THE BANKER'S DRAFT(S) OR CASHIER'S ORDER(S) OR MONEY ORDER(S) OR POSTAL ORDER(S) SHOULD BE CROSSED "ACCOUNT PAYEE ONLY" AND ENDORSED ON THE REVERSE SIDE WITH THE NAME, ADDRESS AND CDS ACCOUNT NUMBER OF THE APPLICANT IN BLOCK LETTERS TO BE RECEIVED BY OUR SHARE REGISTRAR NOT LATER THAN THE LAST DATE AND TIME FOR ACCEPTANCE AND PAYMENT AS SET OUT ON THE COVER PAGE OF THIS ABRIDGED PROSPECTUS.

NO ACKNOWLEDGEMENT OF RECEIPT OF RSF OR APPLICATION MONIES IN RESPECT OF THE EXCESS WARRANTS APPLICATIONS WILL BE MADE BY OUR COMPANY OR OUR SHARE REGISTRAR. NOTICES OF ALLOTMENT WILL BE DESPATCHED BY ORDINARY POST TO THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS OF BURSA DEPOSITORY WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE AND TIME FOR APPLICATION AND PAYMENT FOR THE EXCESS WARRANTS.

APPLICANTS ARE NOT ALLOWED TO WITHDRAW THE RSF AND PAYMENT ONCE THEY HAVE BEEN LODGED WITH OUR SHARE REGISTRAR.

IN RESPECT OF UNSUCCESSFUL OR PARTIALLY SUCCESSFUL EXCESS WARRANTS APPLICATIONS, THE FULL AMOUNT OR THE SURPLUS APPLICATION MONIES (AS THE CASE MAY BE) WILL BE REFUNDED WITHOUT INTEREST BY ORDINARY POST TO THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE FOR APPLICATION AND PAYMENT FOR THE EXCESS WARRANTS AT THE APPLICANT'S OWN RISK.

3.6 Form of issuance

Bursa Securities has already prescribed the KSTB Shares listed on the Main Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Warrants to be issued pursuant to the Rights Issue of Warrants are prescribed securities and as such, the Central Depositories Act and the Rules of Bursa Depository shall apply in respect of the dealings in the Warrants. Failure to comply with these specific instructions or inaccuracy in the CDS Account number may result in the application being rejected.

The Warrants will be credited into the CDS Accounts of the respective Entitled Shareholders and/or their renounee(s) (as the case may be) and notices of allotment will be despatched by ordinary post to the respective Entitled Shareholders or their renounee(s) at the address shown in the Record of Depositors at their own risk within eight (8) Market Days from the last date for acceptance and payment in respect of the Rights Issue of Warrants. No physical Warrants certificates will be issued.

The Warrants, if allotted to the Entitled Shareholders and/or their renounee(s) (if applicable) who apply for excess Warrants, will be credited directly into their CDS Accounts.

3.7 Laws of foreign jurisdictions

This Abridged Prospectus, the NPA and the RSF have not been and will not be made to comply with the laws of any foreign jurisdictions, and have not been and will not be lodged, registered or approved pursuant to or under any legislation of or with or by any regulatory authorities or other relevant bodies of any foreign jurisdictions. The Rights Issue of Warrants will not be made or offered in any foreign jurisdictions.

Foreign Entitled Shareholders and/or their renouncee(s) (if applicable) may only accept or renounce (as the case may be) all or any part of their entitlement and exercise any other rights in respect of the Rights Issue of Warrants to the extent that it would be lawful to do so, and we, our Directors and officers, HwangDBS and other experts would not, in connection with the Rights Issue of Warrants, be in breach of the laws of any jurisdictions to which they are or may be subject. We, our Directors and officers, HwangDBS and other experts shall not accept any responsibility or liability in the event that any acceptance or renunciation made by any foreign Entitled Shareholders and/or their renouncee(s) (if applicable) are or shall become unlawful, unenforceable, voidable or void in any such jurisdictions.

Accordingly, this Abridged Prospectus together with the accompanying documents will not be sent to the foreign Entitled Shareholders and/or their renouncee(s) (if applicable) who do not have a registered address in Malaysia. However, such foreign Entitled Shareholders and/or their renouncee(s) (if applicable) may collect the Abridged Prospectus including the accompanying documents from our Share Registrar, in which event our Share Registrar shall be entitled to request for such evidence as it deems necessary to satisfy itself as to the identity and authority of the person collecting the aforesaid documents.

The foreign Entitled Shareholders and/or their renouncee(s) (if applicable) will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such jurisdiction and KSTB, our Directors and officers, HwangDBS and other experts shall be entitled to be fully indemnified and held harmless by such applicants for any issue, transfer or other taxes or duties as such person may be required to pay. They will have no claims whatsoever against KSTB, our Directors and officers, HwangDBS and other experts in respect of their rights and entitlements under the Rights Issue of Warrants. Such applicants should consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to accept the Rights Issue of Warrants.

By signing the RSF, the foreign Entitled Shareholders and/or their renouncee(s) (if applicable) are deemed to have represented, acknowledged and declared in favour of (and which representations, acknowledgements and declarations will be relied upon by) us, our Directors and officers, HwangDBS and other experts that:

- (i) our Company would not, by acting on the acceptance or renunciation in connection with the Rights Issue of Warrants, be in breach of the laws of any jurisdiction to which the foreign Entitled Shareholders and/or their renouncee(s) (if applicable) are or may be subject;
- (ii) the foreign Entitled Shareholders and/or their renouncee(s) (if applicable) have complied with the laws to which they are or may be subject to in connection with the acceptance or renunciation;
- (iii) the foreign Entitled Shareholders and/or their renouncee(s) (if applicable) are not nominee(s) or agent(s) of any person in respect of whom our Company would, by acting on the acceptance or renunciation, be in breach of the laws of any jurisdiction to which that person is or may be subject;
- (iv) the foreign Entitled Shareholders and/or their renouncee(s) (if applicable) are aware that the Warrants can only be transferred, sold or otherwise disposed of, or charged, hypothecated or pledged in accordance with all applicable laws in Malaysia;
- (v) the foreign Entitled Shareholder and/or his renouncee(s) has obtained a copy of this Abridged Prospectus and has had access to such financial and other information and has been provided the opportunity to ask such questions to the representatives of the parties and receive answers thereto as the foreign Entitled Shareholder and/or his renouncee(s) deem necessary in connection with the foreign Entitled Shareholder and/or his renouncee's decision to subscribe for or purchase the Warrants; and
- (vi) the foreign Entitled Shareholders and/or their renouncee(s) (if applicable) have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Warrants, and are and will be able, and are prepared to bear the economic and financial risks of investing in and holding the Warrants.

Persons receiving this Abridged Prospectus, NPA and RSF (including without limitation custodians, nominees and trustees) must not, in connection with the offer, distribute or send the documents into any foreign jurisdiction where to do so would or might contravene local securities, exchange control or relevant laws or regulations. If this Abridged Prospectus, NPA and RSF are received by any persons in such jurisdiction, or by the agent or nominee of such a person, he must not seek to accept the offer unless he has complied with and observed the laws of the relevant jurisdiction in connection herewith.

Any person who does forward this Abridged Prospectus, NPA and RSF to any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this section and KSTB reserves the right to reject a purported acceptance of the Warrants from any such application by foreign Entitled Shareholders and/or their renounee(s) (if applicable) in any jurisdiction other than Malaysia.

KSTB reserves the right, in its absolute discretion, to treat any acceptance of the Warrants as invalid if it believes that such acceptance may violate any applicable legal or regulatory requirements in Malaysia.

4. RATIONALE AND UTILISATION OF PROCEEDS

4.1 Rationale

The Board is of the view that the Rights Issue of Warrants is currently the most appropriate avenue of raising funds for the KSTB Group based on the following factors:-

4.1.1 Value Creation to the Company and its shareholders

The Company

- (i) it will enable the Company to raise immediate funds without incurring interest cost, as compared to other means of financing such as bank borrowings or the issuance of debt instruments;
- (ii) it will enable the KSTB Group to raise funds that will partially settle the CLO Facility as detailed in Section 1 and Section 4.2 of this Abridged Prospectus and hence enjoy a waiver of the principal sum of RM7.0 million and all other amounts due pertaining to the CLO Facility provided there is full settlement of the CLO Facility before 31 December 2012; and
- (iii) it will strengthen KSTB's financial position.

The Shareholders

- (i) it will provide the Entitled Shareholders an opportunity to further increase their participation in the equity of the Company at a pre-determined price during the Exercise Period of the Warrants;
- (ii) the issuance of Warrants ensures that there is no immediate dilution effect on the EPS of KSTB, which would otherwise arise from a full equity issue; and
- (iii) it will enable shareholders and investors to benefit from the upside potential from future capital appreciation of the Warrants and KSTB Shares arising from the exercise of the Warrants, depending on the future performance of KSTB.

In addition, upon exercise of the Warrants, the Company will obtain additional proceeds which can be used to finance KSTB Group's working capital requirements as an additional source of funds for capital that may be required for its business strategies which aim to accomplish or attain sustainable profitability growth in the future and to further strengthen the market capitalisation of the Company as well as to improve the liquidity of KSTB Shares through the enlarged share base.

4.1.2 Impact on the Company and its securities holders

The Company

The Rights Issue of Warrants, upon implementation, will allow the KSTB Group to raise funds to partly settle the 2nd CLO Settlement Payment or to repay any bank borrowings taken to partly settle the 2nd CLO Settlement Payment, if any. Assuming that the CLO Facility is fully settled by 31 December 2012, being the last day for the full settlement of the CLO Facility, the KSTB Group will be able to recognise a waiver of the principal sum of the CLO Facility of RM7.0 million pursuant to the CLO Settlement referred to in Section 4.2 of this Abridged Prospectus.

Recognising the abovementioned waiver will allow the Company to significantly reduce its gearing as well as increase its NA per share as shown in Section 7.2 of this Abridged Prospectus. Assuming full exercise of the Warrants, gearing of the KSTB Group will be reduced further and NA per share will increase accordingly.

On a proforma basis, the Rights Issue of Warrants will increase the NA of the KSTB Group as at 30 June 2012 from RM26.08 million to RM36.23 million and improve the gearing ratio from 2.42 times to 1.39 times. The gearing level of the KSTB Group after the Rights Issue of Warrants is principally associated with credit facilities of the rig assets and operation of the land rig and drilling services ("Land Drilling Services") which the Group aims to reduce through the efforts and measures as further elaborated in Section 6.2 of this Abridged Prospectus in relation to the "Prospects of our Group".

The Group will continue with its current charter of the 1000 Horse Power ("HP") rated rig for the drilling project in Kalimantan and work together with our local partners and new associates to accomplish better utilisation of its rig assets with longer work order period to provide better revenue contribution, while we continue to pursue suitable investor(s) to invest in our Land Drilling Services or to buy out our Land Drilling Services business together with its assets.

Further, after the Rights Issue of Warrants is implemented the Company will have instruments (in the form of Warrants) that could act as additional available source of funds in addition to the credit facilities from financial institutions to further strengthen the capitalisation of the Company and provide funding that may be required by the Group for its business strategies through exercise of Warrants by its substantial shareholders or/and Entitled Shareholders.

Assuming full exercise of the Warrants to be issued, the Company will receive a cash inflow of RM21,453,975 (based on an Exercise Price of RM0.30 per Warrant) while the NA of the KSTB Group will increase further to RM57.69 million and improve the gearing level from 1.39 times (after the Rights Issue of Warrants) to 0.88 times (assuming full exercise of Warrants).

Further, a low gearing ratio will increase the financial flexibility of the KSTB Group, allowing it to have more free cash flow to invest in projects that is expected to generate profits for the KSTB Group.

The Shareholders

- (i) Provides the Entitled Shareholders an opportunity to further increase their participation in the equity of the Company at a pre-determined price during the Exercise Period of the Warrants;
- (ii) No immediate dilution effect on the shareholders' shareholding in KSTB; and
- (iii) Enable shareholders and investors to benefit from upside potential from future capital appreciation of the Warrants and KSTB Shares arising from the exercise of the Warrants, depending on the future performance of KSTB.

4.1.3 The adequacy of the Rights Issue of Warrants in addressing the Company's financial concerns

The Board has over the years instituted various measures to improve both the financial and business operations of the KSTB Group as follows: -

- Securing more contracts for its tubular handling equipment and running services (“Tubular Handling Services”), oil country tubular goods inspection and maintenance services (“Inspection and Maintenance Services”) and improvement in the efficiency of land rig deployment of our Land Drilling Services. These efforts have increased the revenue generated by the Group to RM85.78 million in the FYE 30 June 2012 when compared to the revenue of RM47.42 million in the FYE 30 June 2011, which represents an increase of 80.9%.
- On 25 June 2012, KSTB completed the disposal of the KSTB’s remaining 51% equity interest in Sobena for a cash consideration of RM14 million, of which RM10 million was used for the 1st CLO Settlement Payment.

The proceeds from the disposal of Sobena has also provided the KSTB Group with working capital and funds for purchase of equipment and tools for its core business Tubular Handling Services.

- The Group’s total borrowings decreased substantially to RM63.66 million for the FYE 30 June 2012 from RM94.49 million as at FYE 30 June 2010, which represents a decrease of 32.6%.

Following the abovementioned reduction in total borrowings of the Group the gearing ratio correspondingly decreased to 2.42 times for the FYE 30 June 2012 when compared to 3.35 times in the previous FYE 30 June 2011.

The results and effects derived from the above mentioned measures are further boosted by current strong demands for tools, equipment and services of KSTB Group’s core business, Tubular Handling Services following the improvement in the domestic and global oil and gas exploration, development and workover activities which are directly related to the KSTB Group’s operation. These were translated into substantial improvement in performance and financials of KSTB Group and its core Tubular Handling Services segment / division for the fourth financial quarter ended 30 June 2012 (“4th Q FYE 30 June 2012”) and FYE 30 June 2012 (in comparison with the corresponding financial quarter and preceding financial year) as follows: -

(All in RM'000)	4 th Quarter FYE 30 June		FYE 30 June	
	2012#	2011#	2012*	2011*
<u>Tubular Handling Services segment / division</u>				
• Turnover	^ 12,924	^ 10,442	60,888	31,962
• PBT/(LBT)	^ 2,545	^ 264	8,817	(1,657)
<u>KSTB Group – continuing operations</u>				
• Turnover	# 17,568	# 12,039	85,779	47,420
• PBT/(LBT)	# 691	# (6,805)	3,453	(15,034)
• Net cash flows from / (used in) operating activities			11,281	(9,226)

Notes:-

* Based on audited financial statements of the KSTB Group for the FYE 30 June 2012 and comparative figures thereof.

Based on the unaudited interim financial report of the KSTB Group for the 4th Q FYE 30 June 2012 and comparative figures thereof.

^ *The 4th quarter segment / division results were computed based on the difference between the audited financial statements of KSTB Group for the FYE 30 June 2012 and the unaudited interim financial report of KSTB Group for the 9-months FPE 31 March 2012 as the breakdown by segment / division is not available in the unaudited interim financial reports of the KSTB Group.*

The domestic oil, gas and energy sector continues to play a crucial role in the growth of the economy and to contribute substantially to the revenue of the Government. The importance and significance of the said sector were further cemented with the inclusion of oil, gas and energy sector as one of the twelve national key economic areas (“NKEAs”) identified for the Economic Transformation Programme (“ETP”) initiated by the Government that will elevate Malaysia to become a high-income nation that is both inclusive and sustainable by 2020. Effects of the implementation and pursuit of entry point projects (“EPPs”) identified for the oil, gas and energy sector pursuant to the ETP were gradually felt throughout the calendar year 2011 with enhanced prospect for the local oil and gas companies from 2012 and beyond with the Government and Petroliaam Nasional Bhd (“PETRONAS”) going full throttle on all twelve (12) identified EPPs focusing on four thrusts: sustaining oil and gas production; enhancing downstream growth; making Malaysia the number one Asian hub for oil field services; and building a sustainable energy platform for growth.

The aforesaid positive prospect was further supported by PETRONAS’ record RM300 billion five-year capital expenditure budget. These have accelerated the domestic oil and gas activities which resulted in greater demand of services rendered by KSTB Group that further translated into improved performance for the FYE 30 June 2012. The current steady crude oil prices is also giving oil and gas operators / companies incentives for more exploration and drilling domestically and globally. As such, KSTB Group anticipates sustainable improvement in the domestic and global oil and gas activities and to continue to experience current high level of demands and utilisation for its Tubular Handling Services for the FYE 30 June 2013. It expects to continue with its current charter which is due for extension consideration in the 3rd Quarter of FYE 2013, of the 1000HP rated rig to a local drilling contractor in Indonesia for drilling project in Kalimantan and work towards mitigating the stack-up (rig on idle and non-operational stage) period for its Land Drilling Services while better performance is anticipated for its Inspection and Maintenance Services in line with the aforesaid sustainable improvement in domestic oil and gas activities.

As at LPD, the Company has been contracted to provide Tubular Handling Services to various PETRONAS Production Sharing Contract Contractors (“PSCs”) such as PETRONAS Carigali Sdn Bhd, Exxonmobil Exploration & Production Malaysia Inc., Petrofac (Malaysia-PM340) Limited, Newfield Peninsular Malaysia Inc. and Lundin (Malaysia) B.V. for various primary contract periods/tenures ranging from two (2) to four (4) years with option for extension of one (1) or two (2) years. Most of these contracts are up for bidding or extension consideration by the relevant PSCs in the first half of the FYE 30 June 2014. The Tubular Handling Services’ overseas project in Vietnam remains in force while the notable newly secured contract in the FYE 30 June 2012 was the three (3)-year plus one (1) extension option of one (1) year contract with Talisman Malaysia Limited. In addition, the Company has as at the LPD participated in the Tubular Handling Services tenders or bidding of two (2) overseas projects with two (2) years’ tenure each and a short term domestic job with provisional schedule of implementation based on information provided in the tender documents, in the second half of the FYE 30 June 2013.

There is no indication of contract value in the above mentioned contracts other than contracted individual charges or levies such as rates, fees and reimbursable items billable by the Company of which the revenue to be derived/earned from such contracts is subjective depending on the activities level of and demand of Tubular Handling Services by the PSCs and/or its customers throughout the contract period. The Company would only derive income or revenue upon services rendered to PSCs and /or its customers in accordance to the scope of works and terms of the contracts. Accordingly, no meaningful estimates of the value of income or revenue could be provided in relation to the above mentioned contracts.

In connection with the above mentioned, the KSTB Group will continue its efforts to maintain and extend the existing stream of service orders, to maintain existing contract(s) due for extension or renewal and to secure new contracts from its existing clients for those contract(s) or scope of works due for tender or bidding and with new players operating in the domestic market and Asia Pacific region which will translate into better utilisation of its existing core revenue equipment and tools as well as its pool of technicians and specialists.

On the premise of the above mentioned and barring any unforeseen circumstances, the Group believes that it will produce and accomplish another set of improved financial performance and cash flow from operations for the FYE 30 June 2013 which are deemed sufficient to meet the current cash flow commitments of its operations and financing activities at this juncture.

While the KSTB Group anticipates continuing recovery of its financials with better financial performance in the FYE 30 June 2013, KSTB is looking at opportunities locally and regionally which aim to accomplish sustainable profitability growth in the future. The KSTB Group intends to expand the scope of its core business Tubular Handling Services to include among others, high temperature and high pressure as well as deep water wells for the domestic market apart from cautiously progressing and enhancing on the geographical expansion plan. The KSTB Group will also focus on increasing high value services for its Inspection and Maintenance Services as well as enhancing the utilisation of the land drilling rigs through charter, joint cooperation and/or partnership arrangements to boost future revenue and profitability of the KSTB Group.

In addition to the above, with the 2nd CLO Settlement Payment due on 31 December 2012, the Board is of the view that the Rights Issue of Warrants is the most adequate measure to make up the shortfall of funds that is required to partially settle the CLO Facility and further pare down the KSTB Group's borrowings to further improve the Company's financial condition.

4.2 Utilisation of proceeds

For illustrative purposes, based on the issue price of RM0.05 per Warrant, the Rights Issue of Warrants is expected to raise estimated gross proceeds of RM3.576 million. The gross proceeds are expected to be utilised in the following manner:

	RM'000	Expected timeframe for utilisation after the listing of the Warrants
Repayment of borrowings*	3,150	Within three (3) months
Estimated expenses of the Rights Issue of Warrants [#]	426	Within one (1) month
Total	3,576	

Notes:-

* The total borrowings of the KSTB Group as at 31 October 2012 was approximately RM67.727 million. Included in the aforesaid amount is the CLO Facility which the Company has on 28 June 2012 entered into a settlement agreement with the Issuer and Trustee for the purposes of the CLO Settlement that entails the following:-

- (a) the full settlement of the CLO Facility vide payment of a cash settlement of RM23.0 million subject to (d);
- (b) the 1st CLO Settlement Payment shall be paid on or before 30 June 2012. The 1st CLO Settlement Payment was paid on 28 June 2012 with proceeds from the Sobena Disposal;
- (c) the 2nd CLO Settlement Payment shall be paid on or before 31 December 2012; and
- (d) RM7.0 million of the remaining principal sum and all other amounts due under the CLO Facility shall be waived provided that (b) and (c) are complied with, failing which the entire original amount outstanding under the CLO Facility, less any amounts paid, shall be immediately due and payable by KSTB.

The estimated expenses relating to the Rights Issue of Warrants comprise, amongst others, the estimated professional fees, fees payable to the relevant authorities, expenses to convene the EGM, printing, advertisement expenses and other ancillary expenses. If the actual expenses incurred are higher than budgeted, the deficit will be funded from internally generated funds. Any surplus will be allocated for the working capital of the KSTB Group.

The KSTB Group intends to utilise approximately RM3.2 million of the proceeds raised from the Rights Issue of Warrants to partly settle the 2nd CLO Settlement Payment or to repay any bank borrowings taken to partly settle the 2nd CLO Settlement Payment, if any. The balance of RM9.8 million required for the 2nd CLO Settlement shall be funded through a combination of internally generated funds of the KSTB Group and/or bank borrowings, the proportion of which has yet to be determined and will depend on the net operating cash inflows of the Group and the availability of credit facilities.

Based on the foregoing and assumption that the CLO Settlement is completed by 31 December 2012 and the prevailing interest rate incurred by the KSTB Group for the CLO Facility of 7.63% per annum, the utilisation of proceeds for the repayments of borrowings of RM3.2 million will enable the Company to recognise a waiver of principal sum of RM7.0 million and all other amounts due under the CLO Facility and reduce its interest cost by approximately RM0.24 million per annum.

The exact quantum of proceeds that may be raised by the Company from the exercise of the Warrants would depend on the actual number of the Warrants exercised. The proceeds from the exercise of the Warrants will be received on an “as and when basis” over the tenure of the Warrants.

Based on the Exercise Price of RM0.30 per Warrant, the Company will raise gross proceeds of RM21.454 million assuming full exercise of the Warrants. Any proceeds arising from the exercise of the Warrants in the future shall be utilised for the working capital requirements of the KSTB Group, which principally includes reducing trade payables and funding operating expenditures for day-to-day operations. The Board has yet to assess the amount that may be allocated for the various types of working capital requirements, the quantum of which depends on the level of activities of the KSTB’s customers and thus the demand of the KSTB Group’s services which is also subject to the number of Warrants eventually exercised by the Warrant holders.

5. RISK FACTORS

Entitled Shareholders and/or their renounee(s) (if applicable) should carefully consider, in addition to the other information contained herein, the following risk factors (which may not be exhaustive) before subscribing for the Warrants.

5.1 Risks relating to the oil and gas industry

Our Group is a provider of land drilling rigs and supporting specialised equipment and tools with related services for exploration, development and workover for the oil and gas sector. These activities are primarily utilised in or catered for the upstream sector of the oil and gas industry. The level of oil exploration, development and workover activities in the oil and gas industry has a direct impact on our Group’s operations. The factors which may affect the level of oil exploration, development and workover activities include, inter alia:

5.1.1 Fluctuation in world prices of oil

The services and activities of our Group are highly dependent on exploration, development and workover in the oil and gas industry, of which the demand is highly or almost perfectly inelastic. This means that a small rise in the price of oil will not change the quantity demanded significantly because oil is an essential commodity for which there are currently no economically viable substitutes and thus, for which there is always a minimum level of demand.

It is, however, noted that the oil and gas industry is especially vulnerable to downward movements in oil prices. Exploration, development and workover will tend to slow down when prices fall to a level where such activities are not commercially viable for oil and gas operators. Consequently, during periods of downward movements in oil prices, one can normally see a slowdown in exploration, development and workover activities with gradual reduction in production activities of this industry, leading to lower demand for supporting products and services for drilling activities amongst others are drilling rig services, mud services, cementing services, tubular handling services and limited demand for OCTG.

However, the maintenance of offshore structures and platform for production activities is affected to a lesser degree due to the nature of the industry. There will always be a requirement for maintenance services to ensure that the integrity of the existing and aging offshore structures and platforms are not compromised.

The Organization of the Petroleum Exporting Countries (“OPEC”), a grouping that includes many of the world’s largest petroleum producing nations, has some influence on the price of hydrocarbons through their control of a sizeable proportion of the world’s production capacity and reserves. Although the influence of OPEC over the market price of hydrocarbons is not absolute, OPEC has a vested interest in ensuring that hydrocarbon prices do not collapse, and as such, is likely to actively attempt to sustain hydrocarbon prices at an ‘acceptable’ level.

5.1.2 Activity in the Malaysian oil and gas industry

PETRONAS is vested with exclusive ownership to Malaysian oil and gas reserves as conferred by the Petroleum Development Act 1974 (“PDA”). The PDA provides for all exploration and exploitation of petroleum by PETRONAS in Malaysia, and accordingly any initiative to undertake the exploration and extraction of crude oil and gas in Malaysia are generally carried out via Production Sharing Contracts (“PSC”) with PETRONAS.

Therefore, any new terms that may have adverse impact to the regular terms of a PSC may generally lower the level of oil exploration, development, workover and production activities as the oil operators will be discouraged to carry out crude oil and gas exploration and extraction activities in Malaysia as well as preclude investors from future ventures. Such slow down in the exploration and extraction activities will lower the demand for equipment, tools, products and services provided by oil and gas support companies such as our Group.

Nonetheless, the oil and gas industry is one of the major contributors to the Malaysian economy, both as a source of energy and a major foreign exchange earner, and as such, it is expected that there will be continued growth in the industry in terms of steady stream of contracts and in turn, revenue and growth in the long term.

5.1.3 Depletion of natural resources

Hydrocarbons are non-renewable sources of energy. In this connection, all hydrocarbon producing regions, including Malaysia, will eventually be depleted, if no new finds are progressively discovered.

However, the National Depletion Policy introduced to safeguard the exploitation of the natural oil reserves by postponing development and control of production of major oil fields will ensure that the extraction of hydrocarbons is carefully managed and sustainable over the long term. PETRONAS has also stepped up exploration efforts, especially in deep-water exploration, in an effort to prolong the lifespan of the industry.

Our Group seeks to mitigate these risks through, inter alia, securing long-term contract agreements of provision of equipment, tools and services to its customers. Our Group, which has presence in Indonesia, also intends to expand its overseas activities and is currently pursuing opportunities in the Association Southeast Asian Nations (“ASEAN”) region, Central Asia countries and Middle East countries, in order to reduce dependency on any single geographical market.

5.1.4 Regulatory compliance and dependence on licences/permits

Our Group’s qualification to tender for and secure various oil and gas projects in Malaysia and other countries, where applicable, is dependent on the necessary licenses issued by, or registration with the relevant authorities. All of these licenses and registrations are only valid for a stipulated time frame which is renewable subject to compliance with the relevant conditions. The requirements set out by the relevant authorities may be subject to changes, which could then affect certain operations of our Group. Failure by our Group to renew, maintain or obtain the required licenses and registrations would have an adverse effect on our Group.

There can be no assurance that the licences and registrations will be renewed within the anticipated time frame or without any new terms or conditions imposed. There is also no assurance that future legislatives or regulatory policy changes will not affect the operations of our Group.

In addition, any fundamental changes to the relevant authorities' policy with regard to the regulations of the oil and gas industry may occur. These changes either by restricting or liberalising the regulations governing oil and gas industry may have an adverse or favourable impact on how our Group operates. If restrictive, there can be no assurance that the business of our Group will not be materially affected by these changes.

5.2 Risks relating to our Group

5.2.1 Business risks

Our Group's business is subject to the inherent risks in the oil and gas industry.

The local oil and gas industry in Malaysia is currently a net exporter, and is susceptible to the fluctuation in crude oil prices and demand for petroleum products. As oil prices are dictated by global market forces, the economic climate in the foreign markets and the development in the local economy are important factors in determining the growth prospects of the industry.

The general risks include shortages of labour, equipment and machineries, rapid changes in industrial technology, increases in the costs of labour and equipment and changes in Government policies. Material changes in our Group's credit condition as well as the contractual risk of the contracts not progressing may also adversely affect the future performance of our Group.

However, our Group is confident that we will be able to position ourselves and adapt our business strategies in accordance with, and to capitalise on, the prevailing economic and market conditions.

5.2.2 Availability of supplies

Our Group sources our major equipment and machineries from multiple overseas suppliers, whilst certain modifications are carried out locally to suit the domestic conditions. As such, our Group is not dependent on any single supplier for the procurements of equipment, machineries, parts and products. Nevertheless, a good relationship with major overseas suppliers has been established throughout the years of trading relationship, which range from five to ten years. As such, our Group has been enjoying reliable supplies both in terms of quality as well as timely delivery.

Nonetheless, no assurance can be given that any significant changes in supply and pricing as well as the lead time for delivery of equipment, machineries, parts and products will not affect the future profitability of our Group.

5.2.3 Availability of skilled workers

Knowledge of and expertise in industrial technology is crucial to the operation of the business. In addition, the necessary skills to perform the principal services of our Group normally take two (2) to three (3) years to acquire. As the oilfield services industry tends to be labour intensive, the need for skilled workers coupled with the tight labour market poses a challenge to many companies in sourcing quality personnel in the oil and gas industry.

Our Group has a relatively stable workforce with a low staff turnover. This is due to our Group's commitment to attract and retain personnel by continuously reviewing remuneration packages and providing training programmes.

5.2.4 Competition

The oilfield services industry in Malaysia requires prodigious amount of start-up cost, as is the case with the upstream oil and gas industry. This support sub-sector also has moderately high barriers to entry in terms of initial capital outlay, technical know-how, skilled workforce and the requirements for licences and registrations.

There are only a handful of companies in Malaysia offering Tubular Handling Services due to the high barriers to entry. Whilst new entrants to the supporting industries may find the domestic market difficult to penetrate, our Group is not insulated from competition from the existing foreign oilfield service providers.

Our Group, however, has several competitive advantages over its foreign rival companies for the Tubular Handling Services currently undertaken by our Company, as KSTB is currently the leading homegrown Malaysian company providing such services in the country. Our Company is duly equipped with the principal equipment and tools and relevant specialists / technicians capable of meeting the general requirement of up to 20 offshore rigs.

Both the Tubular Handling Services and Inspection and Maintenance Services are accredited International Organization for Standardization (“ISO”) 9001:2008, European Norm (“EN”) ISO 9001:2008, British Standard (“BS”) EN ISO 9001:2008 and Management System (“MS”) ISO 9001:2008 Quality Management System certificates by Lloyd’s Register Quality Assurance, The International Certification Network and Standards and Industrial Research Institute of Malaysia (SIRIM) (QAS) International Sdn Bhd. Our strong customer relationship orientation, established local services and the Malaysian Government’s encouragement to foreign oil and gas operators to utilise Malaysian subcontractors provide us with an added advantage over our competitors. Nevertheless, there is no assurance that our Group’s performance will not be affected by competition.

5.2.5 Dependence on key personnel

Our Group believes that our continued success will depend to a certain extent upon the abilities and continued efforts of our Directors and senior management. To ensure smooth succession planning, efforts have been made by our Directors to promote long-term commitment among our key personnel through incentives and the opportunities for career development within our Group.

The loss of any of our Group’s Executive Directors and/or key members of the senior management may affect our Group’s performance in the short term. Our Group’s future success will also depend upon our ability to attract and retain skilled personnel. Our Group also continuously reviews our remuneration packages to ensure competitiveness and takes appropriate measures and programmes to attract new personnel as well as to retain existing staff.

5.2.6 Foreign currency risks

Our Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily USD. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

Our Group maintains a natural hedge, whenever possible, by borrowing in currencies that match the future revenue stream to be generated from our investments.

5.2.7 Economic, political and regulatory risks

Our Group’s business, prospects, financial conditions and level of profitability may be affected by the development of the economic, political and regulatory environment in Malaysia and the countries in which our Group operates. Any adverse development in political situation, economic uncertainties or changes in the regulatory environment could materially and adversely affect the financial performance of our Group. These risks include, among others, risks of war, global economic downturn, changes in interest rates and unfavourable changes in government policies such as introduction of new regulations, import duties and tariffs.

Whilst our Group practices prudent financial management and efficient operating procedures, there is no assurance that adverse political and economic developments, which are beyond our Group’s control will not materially affect our Group.

5.2.8 Operational, health and safety risks

Like any other business involved in the oil and gas industry, our Group’s operations are subject to disruption by a variety of risks and hazards, which are beyond our Group’s control such as fires, explosions, leakages, energy crisis and other accidents at the oil and gas facilities. These risks could ultimately result in personal injury, business interruptions and potential legal proceedings. To address these risks, our Group has established a safety policy that clearly sets out the safety measures that must be strictly adhered to by our employees and contractors.

Our Board believes that these risks are mitigated through the periodic audits of our health and safety procedures and practices, drills, continuous health and safety meetings and reviews, training and other measures. While our Group places heavy emphasis on health and safety throughout all levels of our operations and undertakes continuous health and safety training for our employees, there is no assurance that incidents and damages will not occur.

Our Board will use its best endeavours to ensure that an adequate level of insurance coverage against such risks is maintained. Notwithstanding the above, no assurance can be given that any insurance coverage arranged will be adequate and available to cover all and any claims arising therefrom.

5.2.9 Dependence on the domestic market

Our Group is an established player in the provision of land drilling rigs and supporting specialised equipment and tools with related services supporting the domestic oil and gas industry. Our Group also has all the relevant licences and registrations pertinent to its operations. Based on the audited financial statements of our Group for the FYE 30 June 2012, approximately 85% or RM97.06 million of our Group's revenue was derived from the domestic market. The balance of 15% was derived from overseas markets.

However, the local oil and gas industry is still very active with new and existing operators increasing activity through deepwater exploration and development activities, marginal field developments and enhanced recovery. Thus it is expected that the local oil and gas industry will continue to be active and grow in the near future.

Our Group is also looking at expanding its current operations overseas, where opportunities in the oil and gas industry exist, to mitigate against any over dependence on the domestic market by spreading its revenue base over a greater geographical area.

5.2.10 Dependence on principal products and major customers

The provision of Tubular Handling Services to the oil and gas industry represents the core business activity and main contributor to our Group's revenue. It primarily provides services to PSCs in Malaysia with PETRONAS Carigali Sdn Bhd being the main customer of our Group. The revenue derived from the provision of Tubular Handling Services to such customer accounts for an aggregate of approximately 37% of our Group's total turnover for the FYE 30 June 2012.

The provision of Tubular Handling Services to the PSCs is carried out in accordance with the drilling schedules specified by each PSCs. Generally, the contracts periods are for a fixed primary period ranging from two (2) to four (4) years, with the PSCs having the option to extend their respective contracts for a further period of one (1) year or one (1) year plus one (1) year thereafter.

In accordance with the terms of such services provided by our Group, the PSCs may terminate the provision of services by our Group in the event of its non-conformance with the performance standards required. Should this occur, our Group's operations would be materially affected. There is also no assurance that the PSCs will exercise the extension options in respect of the contract period.

5.2.11 Litigation/Legal Uncertainties

Save for the material litigation disclosed in Appendix VII, Section 4 of this Abridged Prospectus, our Group is not engaged in any material litigation, claim and arbitration, either as plaintiff or defendant, which has a material effect on the financial position of our Group and our jointly controlled entities and our Board is not aware of any proceedings which might materially and adversely affect the position or business of our Group.

There is no assurance that the existing legal action will not materially and adversely affect the position or business of our Group. There is also no assurance that there would be no further legal actions that could adversely affect the position or business of our Group in the future.

5.2.12 Investment activities risk

If appropriate opportunities present themselves, our Group may from time to time acquire additional businesses or invest in synergistic new ventures. As such, there is a potential risk that these investments may have longer than expected gestation periods or may not be entirely successful. In such events, our Group may take time to recover or be unable to recover our initial investments.

Our Group plans to mitigate this risk by exercising due care with effective evaluation and assessment of all known potential risk factors prior to the commencement of such business or ventures in relation to customer demand or market trends. Nevertheless, there can be no assurance that such ventures, if any, will yield positive returns to our Group.

5.2.13 Borrowings

The total borrowings of our Group as at 31 October 2012 was approximately RM67.727 million, the details of which are set out in Section 8.2 of this Abridged Prospectus. The cost of borrowings of our Group is subject to changes in interest rates and any hike in interest rate will adversely affect the financial performance of our Group. In mitigation, we have been actively and continuously reviewing the debt portfolio taking into account our Group's gearing level, attractiveness of alternative financing packages available and our Group's future cash flow requirements. In addition, a substantial portion of the proceeds to be raised from the Rights Issue of Warrants has been earmarked to repay the borrowings.

5.2.14 Restrictive covenants under borrowing facility agreements

Our Group, pursuant to credit facility agreements entered into by our Group with banks or financiers, is bound by certain positive and negative covenants, which may limit our Company's operating and financial flexibility. The aforesaid covenants are of a nature which is commonly contained in credit facility agreements in Malaysia and any act by our Company falling within the ambit or scope of such covenants may give rise to a right by the bank/financier to terminate the relevant credit facility and/or enforce any security granted in relation to that credit facility. Our Board is aware of such covenants and has taken and shall continue to take all precautions necessary to prevent any such breach.

5.2.15 Adequacy of insurance coverage

We are aware of the adverse consequences arising from inadequate insurance coverage that could adversely affect the business operations and financial position. In ensuring that such risks are reduced to the minimum, we will review and ensure adequate coverage for the assets on a continuous basis, where applicable. All the material property, plant and equipment are sufficiently insured. In addition, we have also taken all such other policies which we deem appropriate for our Group's operations. However, there can be no assurance that the insurance coverage would be adequate for the replacement costs of the assets or any consequential cost arising therefrom.

5.2.16 Net profit for the three (3)-month FPE 30 September 2012

Our Group reported a PATMI of approximately RM1.63 million for the three (3)-month FPE 30 September 2012. The aforesaid positive performance and/or results of our Group was attributable to the sustainable improvement in the domestic oil and gas activities thus far while there was significant decline in administrative expenses resulting from recognition of a net gain on foreign exchange and lesser administrative related works/costs from the Land Drilling Services. Our Group will continue its efforts to maintain and extend the existing stream of service orders, to maintain existing contract(s) due for extension or renewal and to secure new contracts from its existing clients for those contract(s) or scope of works due for tender or bidding and with new players operating in the domestic market and Asia Pacific region which will translate into better utilisation of its existing core revenue equipment and tools as well as its pool of technicians and specialists. Notwithstanding the above, no assurance will be given that our Group will be able to operate profitably or will not experience losses in the future.

5.3 Risks relating to the Rights Issue of Warrants

5.3.1 Market risks

The performance of the market price of the Warrants will be influenced by various factors, including market sentiments, volatility of the stock exchange, future profitability of our Group as well as the performance of the industries in which our Group's business operates or is dependent upon. The performance of the local bourse is very much dependent on external factors such as the performance of regional and world bourses and the inflow and outflow of foreign funds. Sentiments are largely driven by internal factors such as the economic or political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of the trading volumes witnessed on Bursa Securities, thus adding risk to the market price of the Warrants. No assurance can be given that the market price of the Warrants upon or subsequent to listing of the Warrants will be at a level that meets the specific investment objectives of any holder of the Warrants.

5.3.2 Share price

As at the LPD, the last transacted share price of KSTB Shares was RM0.215 while the issue price of the Warrants has been fixed at RM0.05 per Warrant. Shareholders should be aware of the risk of capital loss should they subscribe for and exercise the Warrants at a premium to the market price. Shareholders are advised to consult their respective stockbroker, bank manager, solicitor, accountant or other professional adviser for investment advice in relation to the Rights Issue of Warrants.

5.3.3 Delay in or failure of the Rights Issue of Warrants

There may be a delay in or abortion of the listing of the Warrants on the occurrence of, amongst others, the following events:

- (a) force majeure events or circumstances including acts of government, acts of God (including the occurrence of a tsunami and/or earthquakes and/or volcanic eruptions), acts of terrorism, strikes, national disorder, declaration of a state of emergency or diseases, which are beyond the control of our Company, arising prior to the completion of the Rights Issue of Warrants; or
- (b) the substantial shareholders of our Company, who have given the Undertakings fail to or do not fulfil their obligations pursuant to the Undertakings.

Although we will endeavour to secure the listing of the Warrants and ensure that our Group complies with the relevant Listing Requirements for the successful listing of the Warrants, there can be no assurance that the above events will not occur and cause a delay in or abortion of the listing of the Warrants. If the listing of the Warrants does not take place, all monies paid in respect of all applications will be returned in full without any interest and if such monies are not repaid within 14 days after we become liable, we will repay such monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC in accordance with Section 243(2) of the CMSA.

5.3.4 Forward-looking statements

This Abridged Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Abridged Prospectus, including without limitation, those regarding our financial position, business strategies, plans and objections of our management for our future operations, are forward-looking statements. You can identify some of these statements by forward-looking terms such as "expect", "believe", "plan", "estimate", "anticipate", "may", "will", "would", and "could" or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

6. GENERAL OVERVIEW OF THE ECONOMY AND INDUSTRY AND PROSPECTS OF OUR GROUP

The performance of our Group's business is closely linked to the oil and gas industry, the general overview and outlook of which are as follows:

6.1 Overview of the economy and industry

Outlook of the Malaysian economy

The Malaysian economy expanded at a faster pace of 5.1% during the first half of 2012 (January - June 2011: 4.7%) despite the increasingly challenging global economic conditions. Growth in the domestic economy was supported by strong private consumption and robust private investment. The global economy is expected to further moderate during the second half of 2012 as the euro area debt crisis shows no clear signs of abating. Additionally, tepid economic growth in advanced economies and the slowdown of emerging economies especially in China and India, point to weakening global economic prospects. The deterioration in the external environment and correction in commodity prices are expected to weigh on Malaysia's export performance during the second half of 2012. Nevertheless, the vibrant domestic demand is expected to be sustained during the second half of 2012, supported by both public and private sectors amid conducive financial market conditions, stable prices and a favourable labour market.

Taking into account the downside risks emanating from the external sector and a resilient domestic economy, the real Gross Domestic Product is estimated to expand 4.5% - 5% in 2012 (2011: 5.1%).

(Source: Economic Report 2012/2013, Ministry of Finance)

The Malaysian economy recorded a growth of 5.2% in the third quarter of 2012 (2Q 12: 5.6%). Growth was driven by a continued robust expansion in domestic demand amid weaker external demand. Net exports contracted further, with exports declining due to the deterioration in exports of manufactured goods and commodities. The last time exports showed a decline was in 3Q 2009. On the supply side, activity in most economic sectors moderated in the third quarter.

Domestic demand expanded by 11.4% in the third quarter of 2012 (2Q 12: 14.0%) supported by the favourable performance of private consumption and investment activity by both the private and public sectors.

Private consumption grew at a continued strong pace of 8.5% in the third quarter (2Q 12: 8.8%). Household spending was supported by favourable labour market conditions and sustained income growth. Consumption also benefited from the bonus paid to civil servants and the second (of three) payout of RM5,000 to 112,635 FELDA settlers. The continued expansion in consumer spending amidst improved sentiments was reflected in the growth of imports of consumption goods, services tax collections and credit card spending.

Public consumption, moderated to 2.3% (2Q 12: 10.9%), attributable to lower spending in supplies and services.

(Source: Developments in the Malaysian Economy, Bank Negara Quarterly Bulletin, Third Quarter 2012)

Outlook of the oil and gas industry

Value-added of the mining sector rebounded 1.3% (January - June 2011: -6.6%) after experiencing seven (7) consecutive quarters of contraction. The sector is expected to grow 1.5% in 2012 underpinned by improvement in crude oil output and a moderate increase in natural gas during the second half of the year.

During the first seven (7) months of 2012, production of crude oil (including condensates) turned around by 1.9% to 577,144 barrels per day (“bpd”) (January - July 2011: -12.4%; 566,458 bpd) supported by output from new oil fields and efforts to rejuvenate matured oil fields in Peninsular Malaysia. In 2012, production of crude oil (including condensates) is targeted to increase 1.6% to 579,000 bpd (2011: -10.7%; 569,778 bpd) partly due to higher production from new oil fields at East Piatu and Sepat Oil in offshore Peninsular Malaysia.

PETRONAS has intensified its exploration activities to increase domestic oil & gas reserves, resulting in the discovery of two (2) new oil fields in offshore Peninsular Malaysia (Irong 6 and Bertam 2) as at end-June 2012. In line with the Government’s incentives for the development and production of marginal oil fields, PETRONAS has signed several new Production Sharing Contracts involving offshore and deep-water explorations in Sabah and Sarawak to sustain production and increase the lifespan of the reserves. As at 1 January 2012, crude oil reserves stood at 5.95 billion barrels and are estimated to last 29 years (1 January 2011: 5.86 billion barrels; 25 years).

Output of natural gas declined 5.3% to 5,616 million standard cubic feet per day (“mmscfd”) during the first seven (7) months of 2012 (January - July 2011: -0.1%; 5,933 mmscfd) mainly due to operational challenges. However, for 2012, production of natural gas is expected to expand 5.5% to 6,259 mmscfd (2011: 0.3%; 5,932 mmscfd) resulting from the increase in production capacity to meet growing domestic demand, particularly from power producers and petrochemical industries. As at end-June 2012, the discovery of six (6) new gas fields in offshore Peninsular Malaysia, Sabah and Sarawak will further increase production of gas and reserves in Malaysia.

In addition, the completion of the LNG Regasification Terminal in Melaka is expected to ensure a sufficient supply of gas to meet domestic demand in Peninsular Malaysia. Gas reserves stood at 92.1 trillion standard cubic feet as at 1 January 2012, sufficient to last 37 years (1 January 2011: 88.9 trillion standard cubic feet; 39 years).

(Source: Economic Report 2012/2013, Ministry of Finance)

6.2 Prospects of our Group

Our Group currently has three principal activities namely (i) provision of Tubular Handling Services; (ii) provision of Inspection & Maintenance Services; and (iii) provision of Land Drilling Services which are all directly or indirectly in support of upstream oil and gas drilling activities (in particular the exploration, development and workover activities). The continuous growth in the domestic and international oil and gas industry since the listing of KSTB on Bursa Securities in 2004 was brought about by the upward pressure on prices of energy and resources. This has contributed to robust upstream activities in the oil and gas industry, which in turn has helped to spur the active participation and expansion of our Group’s business activities.

Since listing in 2004, our Group has continued to strengthen the market position of our core business, Tubular Handling Services in Malaysia through organic growth with geographical expansion. As a result, our Group has expanded its business coverage to include Land Drilling Services and Tubular Handling Services in overseas market.

In the opinion of the Board, KSTB is currently the leading homegrown Malaysian company providing Tubular Handling Services in the country. It has serviced various PETRONAS PSCs for domestic market with contract exposures in the overseas markets such as Sudan, Myanmar, Indonesia and Vietnam for more than 20 years. The core business, Tubular Handling Services is currently equipped with principal equipment and tools and relevant specialists / technicians capable of meeting the general requirement of the Tubular Handling Services of up to 20 offshore rigs. Currently, the Company is contracted to provide Tubular Handling Services to various PSCs such as PETRONAS Carigali Sdn Bhd, Exxonmobil Exploration & Production Malaysia Inc and Petrofac (Malaysia-PM340) Limited and to Well Services Company Limited in the overseas market.

The KSTB Group has experienced a strong demand for its core business, Tubular Handling Services during the current FYE 30 June 2012 which resulted in a substantial increase in revenue derived from such services. For the current FYE 30 June 2012, the Tubular Handling Services have chalked up a total revenue of approximately RM60.888 million (Corresponding FYE 30 June 2011 – Approximately RM31.962 million) with an unaudited PBT of approximately RM8.817 million (Corresponding FYE 30 June 2011 – Loss before taxation of approximately RM1.657 million).

While the KSTB Group anticipates to continue to experience current high level of utilisation of equipment, tools and technical personnel for its Tubular Handling Services for the FYE 30 June 2013, the Board is nevertheless cautiously optimistic on a sustainable improvement in the domestic and global oil and gas exploration and development activities which are directly related to the KSTB Group's operations. Such cautious views were taken after considering the on-going European sovereign debt crisis which remains unresolved and signs of slowing growth in China and India, the combination of which poses threats to the world economy.

The KSTB Group will continue its efforts to maintain and extend the existing stream of service orders, to maintain existing contract(s) due for extension or renewal and to secure new contracts from its existing clients for those contract(s) or scope of works due for tender or bidding and with new players operating in the domestic market and Asia Pacific region which will translate into better utilisation of its existing core revenue equipment and tools as well as its pool of technicians and specialists. Nonetheless, the KSTB Group will be cautious in expanding its core revenue equipment and tools to meet any short term service requirement of its existing and prospective clients and expand regionally.

More importantly, the KSTB Group will accelerate its efforts while exercising due care to consider all options to address the challenges facing the Land Drilling Services such as incompatibility of the rigs with the specification requirement of prospective customers which reduces the availability of potential projects, short term nature of work orders or contracts and high gearing level of the rigs assets as well as considering investment options for the Land Drilling Services division including time charter of the land rigs and/or joint venture with oil contractors / operators to enhance utilisation of the land rigs and related assets as well as looking for suitable investors to invest in its Land Drilling Services or to buy out its Land Drilling Services business together with its assets.

7. FINANCIAL EFFECTS

7.1 Share capital

The proforma effect of the Rights Issue of Warrants on the issued and paid-up share capital of the Company is as follows:

	No. of KSTB Shares '000	RM'000
As at LPD	143,027	42,908
After the Rights Issue of Warrants	143,027	42,908
To be issued assuming full exercise of Warrants	71,513	21,454
Enlarged issued and paid-up share capital	214,540	64,362

7.2 NA per share and gearing

For illustrative purposes, the proforma effects of the Rights Issue of Warrants on the audited consolidated NA and gearing of our Group as at 30 June 2012 are set out below:

	(I) Audited as at 30 June 2012 RM'000	Rights Issue of Warrants RM'000	(II) After (I) and assuming full exercise of Warrants RM'000
Share capital	42,908	42,908	64,362
Share premium	8,412	7,986*	11,562
Other reserves	3,801	3,801	3,801
Warrant reserves	-	3,576**	-
(Accumulated losses)	(28,838)	(21,838) [#]	(21,838)
Equity attributable to owners of the parent	26,283	36,433	57,887
Non-controlling interests	(201)	(201)	(201)
Total equity/NA	26,082	36,232	57,686
Number of shares in issue ('000)	143,027	143,027	214,540
Interest bearing borrowings (RM'000)	63,656	50,656 [^]	50,656
NA per share (RM)	0.18	0.25	0.27
NTA per share (RM)	0.18	0.25	0.27
Gearing (times)	2.42	1.39	0.88

Notes:-

* After deducting estimated expenses relating to the Rights Issue of Warrants of RM0.426 million.

** Assuming after the issuance of 71,513,250 Warrants, KSTB will recognise the fair value of Warrants of RM3.58 million based on the issue price of RM0.05 per Warrant.

[^] After deducting the 2nd CLO Settlement Payment of RM13.0 million and recognition of waiver of principal sum of the CLO Facility of RM7.0 million pursuant to the CLO Settlement referred to in Section 4.2 of this Abridged Prospectus. The 2nd CLO Settlement Payment is to be funded from proceeds of the Rights Issue of Warrants of RM3.2 million with balance of RM9.8 million ("Balance Sum") to be funded through a combination of internally generated funds of the KSTB Group and/or bank borrowings; the proportion of which has yet to be determined and will depend on the net operating cash inflows of the Group and the availability of credit facilities. For the purpose of determining the proforma effects on the gearing of our Group, it is assumed that RM7.0 million of the Balance Sum is funded through available credit facilities.

[#] Adjusted for recognition of waiver of principal sum of the CLO Facility of RM7.0 million pursuant to the CLO Settlement.

The proforma consolidated statements of financial position of KSTB as at 30 June 2012 together with the assumptions and the Reporting Accountant's letter thereon are set out in Appendix III of this Abridged Prospectus.

7.3 Earnings and EPS

The Rights Issue of Warrants is expected to enhance the earnings and EPS of the KSTB Group for the FYE 30 June 2013 with the expected non-recurring recognition of waiver of RM7.0 million principal sum and all other amounts due under the CLO Facility pursuant to the CLO Settlement as well as expected interest savings provided always there is full settlement of the CLO Facility on or before 31 December 2012.

The potential effect of the exercise of the Warrants on the future earnings and EPS of the KSTB Group will depend upon, amongst others, the number of Warrants exercised at any point in time and utilisation of proceeds arising from the exercise of the Warrants. Although the exercise of the Warrants into new KSTB Shares is expected to dilute the EPS of the KSTB Group as a result of the increase in the Company's issued and paid-up share capital, over time, the utilisation of proceeds raised from the exercise of the Warrants is expected to contribute positively to the future earnings of the KSTB Group.

Nonetheless, the EPS of KSTB may also be diluted if the positive increase in the earnings of the KSTB Group described above is proportionally less than the increase in the number of new KSTB Shares issued from the exercise of Warrants.

8. WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

8.1 Working capital

Our Board is of the opinion that after taking into account the amount to be raised from the Rights Issue of Warrants, the banking facilities available to our Group and current funds available, our Group will have sufficient working capital for a period of twelve (12) months from the date of this Abridged Prospectus.

8.2 Borrowings

As at 31 October 2012, we have total borrowings of approximately RM67.727 million. All the borrowings are interest bearing and comprise the following:

	Fixed interest rate facilities	Variable interest rate facilities	Total
	RM'000	RM'000	RM'000
Domestic borrowings			
Short term (payable within 12 months)	20,020	30,095	50,115
Long term (payable after 12 months)	37	17,575	17,612
	20,057	47,670*	67,727
Foreign borrowings			
Short term (payable within 12 months)	-	-	-
Long term (payable after 12 months)	-	-	-
	20,057	47,670*	67,727

Note:-

* Included in variable interest rate facilities were USD denominated facilities with total balance outstanding as at 31 October 2012 at approximately USD13.53 million that were translated into RM based on the exchange rate of RM3.0565 to USD1.00.

As at LPD, our Group has no borrowings with foreign financial institutions.

There has been no event of default in respect of any borrowings from the financial institutions pertaining to payments of either interest or principal sum throughout the past one (1) financial year and the subsequent financial period thereof as at 31 October 2012.

8.3 Contingent liabilities

Save as disclosed below and the material litigation as set out in Section 4 of Appendix VII, our Directors are not aware of any liabilities incurred or known to be incurred by our Group as at 31 October 2012 which, upon becoming enforceable, may have a material impact on the profit or NA value of our Group.

	RM'000
Bank guarantee in favour of third parties	
- performance guarantees for oil and gas support services undertaken by our Group	<u>4,324</u>

8.4 Material commitments

Save as disclosed below, our Directors are not aware of any material commitments for capital expenditure incurred or known to be incurred by our Group as at 31 October 2012.

	RM'000
Approved, contracted but unpaid costs for the purchase of tools, machineries and equipment for Tubular Handling Services	<u>3,166</u>

The material commitments are expected to be funded by allocated proceeds from the Sobena Disposal, internally generated funds and/or bank borrowings.

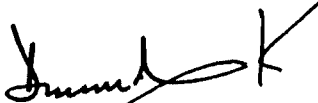
9. TERMS AND CONDITIONS

The issue of the Warrants pursuant to the Rights Issue of Warrants is governed by the terms and conditions set out in this Abridged Prospectus and the accompanying RSF, NPA and the Deed Poll.

10. FURTHER INFORMATION

Shareholders are requested to refer to the attached Appendices for further information.

Yours faithfully,
for and on behalf of the Board
KEJURUTERAAN SAMUDRA TIMUR BERHAD



DARMENDRAN KUNARETNAM
Executive Director

CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION PERTAINING TO THE RIGHTS ISSUE OF WARRANTS PASSED AT THE EGM OF KSTB HELD ON 19 NOVEMBER 2012



KEJURUTERAAN SAMUDRA TIMUR BERHAD
(Company No. 142241-X)
(Incorporated in Malaysia)

HO SOOK YEE
Advocate & Solicitor
Kuala Lumpur
BC/H/146

EXTRACT OF THE MINUTES OF THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY HELD ON 19 NOVEMBER 2012

ORDINARY RESOLUTION

- PROPOSED RENOUNCEABLE RIGHTS ISSUE OF 71,513,250 WARRANTS ("WARRANTS") AT AN ISSUE PRICE OF RM0.05 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.30 EACH IN KSTB ("KSTB SHARES") HELD AT AN ENTITLEMENT DATE TO BE DETERMINED LATER ("PROPOSED RIGHTS ISSUE OF WARRANTS")

Upon the proposal of Mr. Chia Hup Tong, proxy for Innoteguh Sdn. Bhd. and seconded by Encik Mohd. Saiful Fadzlie bin Harun, proxy for Trance Equity Sdn. Bhd., the Meeting (on a show of hands) unanimously **RESOLVED:-**

ORDINARY RESOLUTION

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF 71,513,250 WARRANTS ("WARRANTS") AT AN ISSUE PRICE OF RM0.05 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.30 EACH IN KSTB ("KSTB SHARES") HELD AT AN ENTITLEMENT DATE TO BE DETERMINED LATER ("PROPOSED RIGHTS ISSUE OF WARRANTS")

THAT, subject to the approvals of the relevant authorities (where required) being obtained, the Board of Directors of the Company ("Board") be and is hereby authorised to provisionally allot by way of a renounceable rights issue of 71,513,250 Warrants at an issue price of RM0.05 for each Warrant and payable in cash upon acceptance to the shareholders of the Company whose name appear in the Record of Depositors of the Company at 5.00 p.m. on an entitlement date to be determined by the Board ("Entitlement Date") ("Entitled Shareholders"), on the basis of one (1) Warrant for every two (2) existing KSTB Shares held at an exercise price per Warrant to be determined and announced by the Board at a price-fixing date which shall be before the Entitlement Date after taking into consideration, inter-alia, the five (5)-day volume weighted average market price of the KSTB Shares immediately preceding the price-fixing date, the market demand for the KSTB Shares, the then prevailing market conditions and the par value of the KSTB Shares provided that the exercise price per Warrant shall not, in any case, be lower than the par value of KSTB Shares of RM0.30 ("Exercise Price");

THAT any Warrant which are not taken up or validly taken up or which are not allotted for any reason whatsoever shall first be made available for excess applications in such manner as the Board shall determine at its absolute discretion;

THAT the Warrants shall be allotted and issued in registered form on the basis that, subject to any adjustments to the subscription rights attached to the Warrants under the provisions of the deed poll constituting the Warrants ("Deed Poll") to be executed by the Company, each Warrant entitles its holder to subscribe for one (1) new KSTB Share at the Exercise Price during its prescribed exercise period;

THAT the Warrants and new KSTB Shares to be issued upon exercise of the Warrants shall be listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities");

THAT the proceeds of the Proposed Rights Issue with Warrants be utilised for the purposes as set out in the Circular to Shareholders of our Company dated 2 November 2012, and the Board be authorised with full powers to vary the manner and/or purpose of utilisation of such proceeds in such manner as the

CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION PERTAINING TO THE RIGHTS ISSUE OF WARRANTS PASSED AT THE EGM OF KSTB HELD ON 19 NOVEMBER 2012 (Cont'd)

KEJURUTERAAN SAMUDRA TIMUR BERHAD

(Company No. 142241-X)
(Incorporated in Malaysia)

(Minutes of the Extraordinary General Meeting held on 19 November 2012 - cont'd)

Board may deem fit, necessary and/or expedient, subject (where required) to the approval of the relevant authorities;

THAT the Board be and is hereby empowered and authorised to:-

- (a) *deal with any fractional entitlements that may arise from the Proposed Rights Issue of Warrants in such manner and on such terms and conditions as the Board in its absolute discretion deems fit or expedient and in the best interest of our Company;*
- (b) *allot and issue such number of additional Warrants pursuant to the adjustments under the Deed Poll ("**Additional Warrants**") and determine the Exercise Price accordingly with the power to adjust from time to time the Exercise Price in accordance with the terms of the Deed Poll and/or the par value of the new KSTB Shares to which the holder(s) of the Warrants are entitled to subscribe as a consequence of the adjustments under the provisions in the Deed Poll and/or to effect such modifications, variations, and/or amendments as may be imposed/required/permitted by Bursa Securities and any other relevant authorities or parties or otherwise;*
- (c) *allot and issue such appropriate number of new KSTB Shares, credited as fully paid-up, to the holders of the Warrants arising from the exercise of the Warrants and the Additional Warrants and all new KSTB Shares to be issued upon exercise of the Warrants and the Additional Warrants shall, upon allotment and issue, be of the same class and rank pari passu in all respects with the then existing KSTB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to the shareholders of the Company, the Entitlement Date of which is prior to the date of allotment of the new KSTB Shares arising from the exercise of the Warrants;*
- (d) *enter into the Deed Poll with full powers to assent to any condition, modification, revaluation, variation and/or amendments (if any) as the Board may deem fit, necessary and/or expedient or as may be imposed by the relevant authorities and to take all steps as it may consider necessary or expedient in order to implement, finalise and give full effect to the Deed Poll subject to all provisions and adjustments contained therein; and*
- (e) *do all acts, deeds and things and execute, sign, deliver and cause to be delivered on behalf of our Company all such transactions, arrangements, agreements and/or documents as may be necessary or expedient in order to implement, give effect to and complete the Proposed Rights Issue of Warrants with full powers to assent to any condition, modification, variation and/or amendment to the terms of the Proposed Rights Issue of Warrants as the Board may deem fit, necessary and/or expedient in the interest of our Company or as may be imposed by any relevant authority or consequent upon the implementation of the said conditions, modifications, variations and/or amendments and to take all steps as it considers necessary in connection with the Proposed Rights Issue of Warrants;*

THAT no offer document pertaining to the Proposed Rights Issue of Warrants shall be issued or sent to foreign shareholders of the Company on the Entitlement Date who have not provided an address in Malaysia for the service of documents to be issued for purposes of the Proposed Rights Issue of Warrants;

AND THAT this resolution constitutes a specific approval for the issuance of securities in the Company contemplated herein which is made pursuant to an offer, agreement or option and shall continue in full

CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION PERTAINING TO THE RIGHTS ISSUE OF WARRANTS PASSED AT THE EGM OF KSTB HELD ON 19 NOVEMBER 2012 (Cont'd)

KEJURUTERAAN SAMUDRA TIMUR BERHAD

(Company No. 142241-X)
(Incorporated in Malaysia)

(Minutes of the Extraordinary General Meeting held on 19 November 2012 - cont'd)

force and effect until all Warrants and new KSTB Shares to be issued pursuant to or in connection with the Proposed Rights Issue of Warrants have been duly allotted and issued in accordance with the terms of the Proposed Rights Issue of Warrants as well as the Additional Warrants to be issued pursuant to the adjustments in accordance with the provisions of the Deed Poll.

CERTIFIED TRUE COPY



DIRECTOR



DIRECTOR

Dated: 19 November 2012

1. HISTORY AND BUSINESS

Our Company was incorporated on 16 July 1985 under the name of Intel Paint (M) Sdn Bhd. We underwent a name change, to Kejuruteraan Samudra Timur Sdn Bhd on 16 February 1987. We converted into a public company under the present name on 16 January 2003 and were listed on the Second Board (now known as the Main Market) of Bursa Securities on 19 February 2004.

We are principally engaged in the provision of tubular handling equipment and running services to the oil and gas industry as well as an investment holding company while the principal activities of our subsidiaries and jointly controlled entities are as set out in Section 6 of this appendix.

2. SHARE CAPITAL

Our authorised share capital and the issued and paid-up share capital as at the LPD are as follows:

	No. of KSTB Shares	Par value RM	Amount RM
Authorised	300,000,000	0.30	90,000,000
Issued and fully paid-up	143,026,500	0.30	42,907,950

3. CHANGES IN THE ISSUED AND PAID-UP SHARE CAPITAL

The details of the changes in the issued and paid-up share capital of KSTB for the last three (3) years up to the LPD are as follows:

Date of allotment	No. of shares issued	Total No. of shares issued	Par value RM	Consideration	Cumulative issued and paid-up share capital RM
08.01.2010	N/A	106,480,000	0.30	Cancellation of RM0.20 from the par value of RM0.50 of every ordinary share of RM0.50 each from the existing 106,480,000 shares of RM0.50 each pursuant to a capital reduction exercise resulting in RM31,944,000 issued and paid-up capital comprising 106,480,000 ordinary shares of RM0.30 each.	31,944,000
18.8.2010	36,546,500	143,026,500	0.30	Issuance of 36,546,500 rights shares of RM0.30 each.	42,907,950

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4. SUBSTANTIAL SHAREHOLDERS

The proforma effects of the Rights Issue of Warrants on the shareholdings of our substantial shareholders as at the LPD are set out as follows:

Scenario 1 – Assuming all shareholders subscribe for their respective entitlements under the Rights Issue of Warrants

	(I)				(II)				
	Existing as at LPD		After Rights Issue of Warrants		After (I) and assuming full exercise of the Warrants		After (I) and assuming full exercise of the Warrants		
	<----- Direct ----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->	
Substantial Shareholders	No. of KSTB Shares#	% held	No. of KSTB Shares	% held	No. of KSTB Shares	% held	No. of KSTB Shares	% held	
Dato' Chee Peck Kiat @ Chee Peck Jan	34,292,900	23.98	-	-	34,292,900	23.98	51,439,350	23.98	-
Innoteguh Sdn Bhd	19,721,800	13.79	-	-	19,721,800	13.79	29,582,700	13.79	-
Tengku Aniza binti Tengku Ab. Hamid	-	-	19,721,800*	13.79	-	-	-	-	29,582,700*
Virtual Sphere Sdn Bhd	16,491,640	11.53	-	-	16,491,640	11.53	24,737,460	11.53	-
Trance Equity Sdn Bhd	12,722,000	8.89	-	-	12,722,000	8.89	19,083,000	8.89	-

Notes:-

Based on the ROD as at LPD.

* Deemed interested by virtue of her interest in Innoteguh Sdn Bhd pursuant to Section 6A(4) of the Act.

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INFORMATION ON KSTB (Cont'd)

APPENDIX II

Scenario 2 – Assuming none of the Entitled Shareholders and their renouneece(s), other than Dato' Chee Peck Kiat @ Chee Peck Jan, Innoteguh Sdn Bhd, Virtual Sphere Sdn Bhd and Trance Equity Sdn Bhd subscribe for their respective entitlements under the Rights Issue of Warrants as well as the entire balance of the “open-portion” of Warrants which are not subscribed for by the other Entitled Shareholders of KSTB in proportion to their respective shareholdings in KSTB

	(I)				(II)							
	Existing as at LPD		After Rights Issue of Warrants		After (I) and assuming full exercise of the Warrants		After (I) and assuming full exercise of the Warrants					
	<----- Direct ----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->				
Substantial Shareholders	No. of KSTB Shares#	% held	No. of KSTB Shares	% held	No. of KSTB Shares	% held	No. of KSTB Shares	% held	No. of KSTB Shares	% held		
Dato' Chee Peck Kiat @ Chee Peck Jan	34,292,900	23.98	-	-	34,292,900	23.98	-	-	63,758,790	29.72	-	
Innoteguh Sdn Bhd	19,721,800	13.79	-	-	19,721,800	13.79	-	-	36,667,590	17.09	-	
Tengku Aniza binti Tengku Ab. Hamid	-	-	19,721,800*	13.79	-	-	19,721,800*	13.79	-	-	36,667,590*	17.09
Virtual Sphere Sdn Bhd	16,491,640	11.53	-	-	16,491,640	11.53	-	-	30,661,940	14.29	-	
Trance Equity Sdn Bhd	12,722,000	8.89	-	-	12,722,000	8.89	-	-	23,653,270	11.03	-	

Notes:-

Based on the ROD as at LPD.

* Deemed interested by virtue of her interest in Innoteguh Sdn Bhd pursuant to Section 6A(4) of the Act.

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5. BOARD OF DIRECTORS

The particulars of our Directors are set out in the Corporate Information section of this Abridged Prospectus. The proforma effects of the Rights Issue of Warrants on the shareholdings of our Directors based on the Register of Directors' Shareholdings as at the LPD are set out as follows:

Scenario 1 – Assuming all shareholders subscribe for their respective entitlements under the Rights Issue of Warrants

	(I)				(II)			
	Existing as at LPD		After Rights Issue of Warrants		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Tan Sri Dato' Dr Syed Jalaludin bin Syed Salim	-	-	-	-	-	-	-	-
Dato' Nik Abdul Aziz bin Mohamed Kamil	-	-	-	-	-	-	-	-
Ishak @ Abd. Rahman bin Mohamad	-	-	-	-	-	-	-	-
Mohammad bin Ayob	-	-	-	-	-	-	-	-
Tengku Aniza binti Tengku Ab. Hamid	-	-	19,721,800*	13.79	-	-	19,721,800*	13.79
Onn bin Mohd Yusoff	-	-	-	-	-	-	-	-
Darmendran Kunaretnam	1,850,800	1.29	-	-	1,850,800	1.29	-	-
Leong Chee Keong	200,000	0.14	105,000 [#]	0.07	200,000	0.14	105,000	0.07
Chee Cheng Chun	-	-	-	-	-	-	-	-
							29,582,700*	13.79
						2,776,200		1.29
					300,000		157,500	0.07

Notes:-

* Deemed interested by virtue of her interest in *Innoteguh Sdn Bhd* pursuant to Section 6A(4) of the Act in accordance with the Register of Substantial Shareholders.

Deemed interested by virtue of his interest in *Prima Utama Holdings Sdn Bhd* pursuant to Section 6A(4) of the Act and through the shareholdings of his spouse, *Chim Yee Mei* pursuant to Section 134(12)(c) of the Act.

INFORMATION ON KSTB (Cont'd)

APPENDIX II

Scenario 2 – Assuming none of the Entitled Shareholders and their renouncee(s), other than Dato' Chee Peck Kiat @ Chee Peck Jan, Innoteguh Sdn Bhd, Virtual Sphere Sdn Bhd and Trance Equity Sdn Bhd subscribe for their respective entitlements under the Rights Issue of Warrants as well as the entire balance of the "open-portion" of Warrants which are not subscribed for by the other Entitled Shareholders of KSTB in proportion to their respective shareholdings in KSTB

	(I)				(II)					
	Existing as at LPD		After Rights Issue of Warrants		After (I) and assuming full exercise of the Warrants		After (I) and assuming full exercise of the Warrants			
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect		
No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	
Tan Sri Dato' Dr Syed Jalaludin bin Syed Salim	-	-	-	-	-	-	-	-	-	-
Dato' Nik Abdul Aziz bin Mohamed Kamil	-	-	-	-	-	-	-	-	-	-
Ishak @ Abd. Rahman bin Mohamad	-	-	-	-	-	-	-	-	-	-
Mohammad bin Ayob	-	-	-	-	-	-	-	-	-	-
Tengku Aniza binti Tengku Ab. Hamid	-	-	19,721,800*	13.79	-	13.79	19,721,800*	-	36,667,590*	17.09
Onn bin Mohd Yusoff	-	-	-	-	-	-	-	-	-	-
Darmendran Kunaretnam	1,850,800	1.29	-	-	1,850,800	1.29	-	1,850,800	-	0.86
Leong Chee Keong	200,000	0.14	105,000#	0.07	200,000	0.14	105,000	200,000	105,000	0.05
Chee Cheng Chun	-	-	-	-	-	-	-	-	-	-

Notes:-

* Deemed interested by virtue of her interest in Innoteguh Sdn Bhd pursuant to Section 6A(4) of the Act in accordance with the Register of Substantial Shareholders.

Deemed interested by virtue of his interest in Prima Utama Holdings Sdn Bhd pursuant to Section 6A(4) of the Act and through the shareholdings of his spouse, Chim Yee Mei pursuant to Section 134(12)(c) of the Act.

6. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Our subsidiaries and jointly controlled entities as at the LPD are as follows:

Name of company	Date and place of incorporation	Issued and paid-up capital	Effective equity interest %	Principal activities
Samudra Timur Sdn Bhd	03.03.1983 Malaysia	RM1,000,000	100.00	Provision of tubular inspection and maintenance services to the oil and gas industry within and outside Malaysia.
KST Drilling Technologies Sdn Bhd	16.02.2004 Malaysia	RM15,000,000	100.00	Investment holding and provision of land drilling services.
KST Drilling Technologies (M) Ltd	24.04.2003 Republic of Mauritius	USD1	100.00	Dormant.
KST International Ltd	30.09.2005 British Virgin Islands	USD1	100.00	Dormant.
Samudra Oil Services Sdn Bhd	22.06.2010 Malaysia	RM100,000	100.00	Dormant.
KST Fishing Services Sdn Bhd ("KSTFS")	02.02.2005 Malaysia	RM200,000	100.00	Dormant.
<i>Subsidiary of KST Drilling Technologies Sdn Bhd</i>				
PT KST Drilling Technologies Indonesia	17.04.2009 Indonesia	Equivalent to USD500,000	95.00	Provision of land drilling services, tubular handling equipment and running services, tubular inspection and maintenance services within Republic of Indonesia.
<i>Jointly controlled entities</i>				
KST Gagie Sdn Bhd^ ("KSTGSB")	06.06.2005 Malaysia	RM500,000	50.00	Inactive.
KST Gagie Labuan Ltd# ("KSTGLL")	17.01.2006 Labuan	USD100,000	51.00	Inactive.

As at the LPD, KSTB does not have any associate companies.

Notes:-

- ^ Pursuant to a shareholders agreement entered into between Gagie Corporation S.A. ("Gagie") and our Company dated 19 December 2005, the control of KSTGSB was joint, as evidenced by inter alia, the quorum required for Board of Directors meetings and shareholders meetings and the requirement of joint bank signatories. Our Company has unilaterally terminated the said shareholders' agreement on 5 April 2007 and Gagie has accepted our Company's "repudiation" of the shareholders' agreement. Notwithstanding the above, the parties have agreed to refer matters arising from the repudiation/ termination to arbitration and until the resolution of the arbitration, the management of our Company continues to deem the control of KSTGSB as joint.
- # Notwithstanding that our Company holds 51% equity interest in KSTGLL, pursuant to the shareholders agreement entered into between Gagie and our Company dated 19 December 2005, the control of KSTGLL was joint, as evidenced by inter alia, the quorum required for Board of Directors meetings and shareholders meetings and the requirement of joint bank signatories. Our Company has unilaterally terminated the said shareholders' agreement on 5 April 2007 and Gagie has accepted our Company's "repudiation" of the Shareholders' Agreement. Notwithstanding the above, the parties have agreed to refer matters arising from the repudiation/ termination to arbitration and until the resolution of the arbitration, the management of our Company continues to deem the control of KSTGLL as joint.

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7. PROFIT RECORD

The summary of our audited consolidated financial results for the FYE 30 June 2010, FYE 30 June 2011, FYE 30 June 2012 and the unaudited consolidated financial results for the three (3)-month FPE 30 September 2012 are set out below:

	Audited			Unaudited
	FYE 30 June 2010 RM'000	FYE 30 June 2011 RM'000	FYE 30 June 2012 RM'000	Three (3)- month FPE 30 September 2012 RM'000
Revenue	44,220 [#]	47,420	85,779	18,058
Gross Profit/(Loss)	2,318 [#]	(103)	20,700	6,594
Other income	136 [#]	1,270	1,248	84
Earnings before interest, taxation, depreciation and amortisation	5,109 [#]	5,192	22,169	7,567
Add/(less):				
Interest expense	(5,145) [#]	(5,014)	(4,618)	(978)
Interest income	10 [#]	9	9	11
Depreciation	(15,089) [#]	(15,221)	(14,107)	(3,280)
Amortisation	(8) [#]	-	-	-
(LBT)/PBT from continuing operations	(15,123) [#]	(15,034)	3,453	3,320
Taxation	1,480 [#]	(488)	(3,603)	(1,724)
(LAT)/PAT from continuing operations	(13,643) [#]	(15,522)	(150)	1,596
Profit from discontinued operations, net of tax	594 [#]	1,212	2,440	-
(LAT)/PAT for the Group	(13,049)	(14,310)	2,290	1,596
Minority interests	(666)	(496)	(1,101)	30
(LATMI)/PATMI	(13,715)	(14,806)	1,189	1,626
<u>Revenue for the Group</u>				
- from continuing operations	44,220	47,420	85,779	18,058
- from discontinued operation	15,821	20,661	28,091	-
	60,041	68,081	113,870	18,058
Gross Profit margin for continuing operations (%)	5.24	(0.22)	24.13	36.52
(LATMI)/PATMI margin against revenue for the Group (%)	(22.84)	(21.75)	1.04	9.00
No. of shares in issue ('000)	106,480	143,027	143,027	143,027
Weighted average number of shares:				
- Basic ('000)	106,480	137,720	143,027	143,027
- Diluted ('000)	N/A	N/A	N/A	N/A
(LPS)/EPS (sen)	(12.88)	(10.75)	0.83	1.14
Diluted net EPS/(LPS) (sen)	N/A	N/A	N/A	N/A
Gross dividend per share (sen)	-	-	-	-

Note:-

- # On 31 January 2012, the Company announced the disposal of Sobena which was previously consolidated in the financial statements of the KSTB Group in the FYE 30 June 2011 and classified as discontinued operation for the FYE 30 June 2012. The Sobena Disposal was completed on 25 June 2012 hence, the financial performance of Sobena have been deconsolidated in the financial information for the FYE 30 June 2012. The comparative figures for the FYE 30 June 2010 and 2011 have also been adjusted to exclude the financial performance of Sobena.

FYE 30 JUNE 2010

The continuing operations of KSTB Group recorded a revenue of RM44.22 million (an average monthly revenue of about RM3.69 million) for the FYE 30 June 2010 compared to a RM75.82 million (an average monthly revenue of approximately RM4.21 million) for the previous 18-month FPE 30 June 2009, a reduction in average monthly revenue of approximately 12% which was principally due to decline of about 26% in average monthly revenue earned by the Tubular Handling Services during the FYE 30 June 2010 to RM2.16 million against RM2.90 million achieved in the preceding financial period. There was substantial increase in LBT of the KSTB Group for the FYE 30 June 2010 by approximately 142% to about RM15.12 million when compared to an annualised LBT of approximately RM6.25 million for the FPE 30 June 2009.

This unfavourable performance of the continuing operations was attributed to LBT of approximately RM4.32 million incurred by its Tubular Handling Services resulted from the decline in revenue mentioned above following lower volume of work, service and rental orders received from clients during the FYE 30 June 2010, as compared to a PBT of about RM4.04 million for the FPE 30 June 2009 and impairment charge of RM2.28 million as well as higher LBT of approximately RM12.69 million compared to an annualised LBT for the FPE 30 June 2009 of about RM10.83 million was registered by Land Drilling Services. This increase was due mainly to commissioning cost incurred in putting its 1000HP rated land rig for commercial operation and higher depreciation charges as a result of the commencement of amortisation of the 1000HP rated land rig during the FYE 30 June 2010.

There was recognition of net reversal of taxation expense amounted to approximately RM1.48 million in respect of continuing operations for the FYE 30 June 2010 compared to an annualised net taxation expense of about RM2.50 million in the preceding financial period. However, these positive effects were outweighed by the above mentioned increase in LBT that resulted in the Group reporting a higher LAT of about RM13.05 million as compared to the FPE 30 June 2009's annualised LAT of about RM8.89 million for the combined operations of the Group.

FYE 30 JUNE 2011

The continuing operations of KSTB Group recorded approximately 7.2% improvement in revenue following the recovery of domestic oil and gas activities which was experienced by the Group towards the end of the FYE 30 June 2011. Its Tubular Handling Services recorded a rise in its revenue by about 23% to approximately RM31.96 million as compared to RM25.88 million achieved in the last FYE 30 June 2010 with a lower LBT of about RM1.66 million, 62% reduction from RM4.32 million incurred in the preceding financial year.

There was a gain on disposal of assets held for sale amounted to approximately RM1.13 million following the completion of the disposal of an office building by our Inspection and Maintenance Services division during the FYE 30 June 2011.

The aforesaid improvement and positive effects were counterweighted by greater LBT contributed by the Land Drilling Services following underutilisation of its rig assets in the FYE 30 June 2011 as the KSTB Group's 750HP rated land rig failed to secure any work order/contract while its 1000HP rated land rig was only in active operation for a drilling project in Kalimantan ("Sangatta Project") for three (3) months during the FYE 30 June 2011. Consequently, there was no material fluctuation or improvement in the LBT position for the continuing operations of the Group when compared to the FYE 30 June 2011.

The Group recorded a higher LAT for the FYE 30 June 2011 of approximately RM14.31 million as compared to RM13.05 million incurred in the preceding financial year due principally to the Group's continuing operations were in a net taxation expense position as opposed to a net reversal of taxation expenses recorded in the FYE 30 June 2010.

FYE 30 JUNE 2012

The continuing operations of the KSTB Group recorded an increase in its revenue by approximately 80.89% to RM85.78 million for the FYE 30 June 2012 when compared to RM47.42 million achieved during the FYE 30 June 2011. The increase in revenue was principally attributable to the following: -

- surge in demands for equipment and technician/specialists of the Group's core Tubular Handling Services with the acceleration of domestic oil and gas activities driven by various Government's initiatives elaborated in Section 4.1.3 which has seen drastic rise in revenue by about 90.52% to approximately RM60.89 million as compared to RM31.96 million recorded in the preceding financial year; and
- better utilisation of the rigs assets as the Group's 750HP rated land rig was on charter contract with a local drilling contractor for the FYE 30 June 2012 while the 1000HP rated land rig was in active operation for five (5) months at Sangatta Project and was subsequently on mobilisation and rig preparation exercise for a project near Samarinda Kalimantan scheduled for drilling in third quarter of 2012, which translated into higher revenue of approximately RM14.48 million reported by the Land Drilling Services, an increase of about 123% over the RM6.49 million revenue achieved in the preceding financial year.

The above mentioned as well as gain arising from the Sobena Disposal of RM1.06 million have enabled the Group's Tubular Handling Services to report PBT of approximately RM8.82 million as opposed to a LBT position of RM1.66 million incurred in the FYE 30 June 2011 while lower LBT of about RM6.07 million was incurred by the Land Drilling Services, an improvement of approximately 62.42% when compared to LBT of RM16.15 million reported in the FYE 30 June 2011. Consequently, the continuing operations of the Group registered a turnaround in before tax results with a PBT of RM3.45 million as compared to a LBT of RM15.03 million suffered in the FYE 30 June 2011.

On a combined Group basis, KSTB Group recorded PAT of approximately RM2.29 million as compared to LAT for the FYE 30 June 2011 of approximately RM14.31 million.

THREE (3)-MONTH FPE 30 SEPTEMBER 2012 (Unaudited)

For the three (3)-month FPE 30 September 2012, our Group's Continuing operations registered a total revenue of approximately RM18.06 million a reduction of about 38.07% when compared to the corresponding financial period mainly due to lower turnover and volume of work were reported by both its Tubular Handling Services and Land Drilling Services. This has translated into a lower gross profit of about RM6.59 million for the current financial period as compared to RM8.25 million achieved in the corresponding financial period. The aforesaid reduction effect was offset by the significant decline in administrative expenses which was attributable to the recognition of a net gain on foreign exchange of about RM0.57 million for the current financial period as opposed to a net loss on foreign exchange position recorded in the corresponding financial period of approximately RM0.96 million.

As a result, our Group's Continuing operations managed to register a higher PBT of approximately RM3.32 million, an increase of about 60.93% when compared to the PBT of about RM2.06 million reported in the corresponding period. Our Group recorded a PATMI of approximately RM1.63 million for the current financial period.

8. HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of KSTB Shares traded on Bursa Securities for the past twelve (12) months preceding the date of this Abridged Prospectus are as follows:

	High RM	Low RM
2011		
December	0.240	0.130
2012		
January	0.240	0.140
February	0.200	0.150
March	0.220	0.160
April	0.200	0.155
May	0.180	0.150
June	0.200	0.160
July	0.200	0.180
August	0.200	0.180
September	0.190	0.170
October	0.210	0.180
November	0.230	0.200

Last transacted price of KSTB Shares on 21 September 2012 (*being the Market Day immediately prior to the announcement of the Rights Issue of Warrants*) RM0.185

Last transacted price of KSTB Shares on 9 November 2012 (*being the LPD*) RM0.215

Last transacted price of KSTB Shares on 4 December 2012 (*being the Market Day immediately prior to the ex-date in respect of the Rights Issue of Warrants and the latest practicable date before the issuance of this Abridged Prospectus*) RM0.220

(Source: Bloomberg)

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF KSTB AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON



Ernst & Young

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**Reporting Accountants' Letter on Pro forma Consolidated Statements of Financial Position
(prepared for inclusion in the Abridged Prospectus to be dated 7 December 2012)**

The Board of Directors
Kejuruteraan Samudra Timur Berhad
Suite A-21-13A, Level 21,
Menara UOA Bangsar,
No. 5, Jalan Bangsar Utama 1,
59000 Kuala Lumpur, Malaysia.

29 November 2012

Dear Sirs,

**KEJURUTERAAN SAMUDRA TIMUR BERHAD ("KSTB")
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE
2012**

We report on the pro forma consolidated statements of financial position of KSTB and its subsidiaries (collectively known as the "Group") as at 30 June 2012 as set out in Appendix III of the Abridged Prospectus to be dated 7 December 2012 ("Abridged Prospectus") (which we have stamped for the purpose of identification), which have been prepared on the basis described in Notes to the pro forma consolidated statements of financial position, for illustrative purposes only. The pro forma consolidated statements of financial position have been prepared to provide information about how the consolidated statements of financial position of KSTB as at 30 June 2012 that have been presented might have been affected had the proposal for renounceable rights issue of 71,513,250 warrants ("warrant(s)") at an issue price of RM0.05 for each warrant on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.30 each in KSTB held at the entitlement date ("Rights Issue of Warrants") been completed on that date.

The pro forma consolidated statements of financial position, because of its nature, may not be reflective of the Group's actual financial position. Furthermore, such information does not purport to predict the future financial position of the Group.

The report is required by and is given for the purpose of complying with the Prospectus Guidelines - Abridged Prospectus issued by the Securities Commission Malaysia ("Abridged Prospectus Guidelines") and for no other purpose.

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION KSTB AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



Kejuruteraan Samudra Timur Berhad

29 November 2012

Responsibilities

It is the responsibility of the Board of Directors of KSTB ("Board") to prepare the pro forma consolidated statements of financial position as at 30 June 2012 on the basis described in Notes to the pro forma consolidated statements of financial position, for illustrative purposes only, in accordance with the Abridged Prospectus Guidelines.

It is our responsibility to form an opinion, as to the proper compilation of the pro forma consolidated statements of financial position and to report that opinion to you.

In providing this opinion, we are not responsible in updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma consolidated statements of financial position, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000- Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma consolidated statements of financial position with the directors and responsible officers of KSTB.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma consolidated statements of financial position as at 30 June 2012 have been properly compiled on the basis stated using financial statements prepared in accordance with Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies of KSTB. Our work also involves assessing whether the adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position is appropriate for the purposes of preparing the pro forma consolidated statements of financial position.

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION KSTB AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



Kejuruteraan Samudra Timur Berhad

29 November 2012

Opinion

In our opinion:

- (a) the pro forma consolidated statements of financial position of KSTB as at 30 June 2012, which have been prepared by the Board of KSTB, have been properly compiled on the basis stated in the accompanying Notes to the pro forma consolidated statements of financial position using financial statements prepared in accordance with Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the statement of financial position and the accounting policies of KSTB; and
- (b) the adjustments made to the information used in the preparation of the pro forma consolidated statements of financial position are appropriate for the purposes of preparing the pro forma consolidated statements of financial position.

Other matters

This report has been prepared for inclusion in the Abridged Prospectus, for the purpose of complying with the Abridged Prospectus Guidelines, and should not be relied on for other purposes. Our work has been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this report is not appropriate in other jurisdictions and should not be used or relied upon for any purposes other than the Rights Issue of Warrants described above. We accept no duty or responsibility and deny any liability to any party in respect of any use of, or reliance upon, this report in connection with any type of transaction, including the sale of securities other than the Rights Issue of Warrants.

A handwritten signature in black ink, appearing to be 'Ernst & Young'.

Ernst & Young
AF: 0039
Chartered Accountants
29 November 2012

A handwritten signature in black ink, appearing to be 'Abraham Verghese al T.V. Abraham'.

Abraham Verghese al T.V. Abraham
No. 1664/10/14(J)
Chartered Accountant

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION KSTB AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

KEJURUTERAAN SAMUDRA TIMUR BERHAD
(Incorporated in Malaysia)

Appendix A

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	Audited as at 30 June 2012 RM'000	Adjustments RM'000	Pro forma I After the Rights Issue of Warrants RM'000	Adjustments RM'000	Pro forma II After Pro forma I and assuming full exercise of warrants RM'000
Assets					
Non-current assets					
Property, plant and equipment	86,784		86,784		86,784
Investment securities	35		35		35
	<u>86,819</u>		<u>86,819</u>		<u>86,819</u>
Current assets					
Inventories	4,024		4,024		4,024
Trade and other receivables	31,331	(2,850)	28,481		28,481
Other current asset	2,168		2,168		2,168
Tax recoverable	216		216		216
Cash and bank balances	1,713		1,713	21,454	23,167
	<u>39,452</u>		<u>36,602</u>		<u>58,056</u>
Total assets	126,271		123,421		144,875
Equity and liabilities					
Current liabilities					
Loans and borrowings	43,285	(13,000)	30,285		30,285
Trade and other payables	32,061		32,061		32,061
Income tax payable	1,014		1,014		1,014
	<u>76,360</u>		<u>63,360</u>		<u>63,360</u>
Net current liabilities	(36,908)		(26,758)		(5,304)
Non-current liabilities					
Loans and borrowings	20,371		20,371		20,371
Deferred tax liabilities	3,458		3,458		3,458
	<u>23,829</u>		<u>23,829</u>		<u>23,829</u>
Total liabilities	100,189		87,189		87,189
Net assets	26,082		36,232		57,686
Equity attributable to owners of the parent					
Share capital	42,908		42,908	21,454	64,362
Share premium	8,412	(426)	7,986	3,576	11,562
Other reserves	3,801		3,801		3,801
Warrant reserves	-	3,576	3,576	(3,576)	-
Accumulated losses	(28,838)	7,000	(21,838)		(21,838)
	<u>26,283</u>		<u>36,433</u>		<u>57,887</u>
Non-controlling interests	(201)		(201)		(201)
Total equity	26,082		36,232		57,686
Total equity and liabilities	126,271		123,421		144,875
No of ordinary shares in issue ('000)	143,027		143,027		214,540
Net assets per share (RM)	0.18		0.25		0.27

ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION KSTB AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

KEJURUTERAAN SAMUDRA TIMUR BERHAD
(Incorporated in Malaysia)

Appendix B

NOTES TO THE PRO FORMA CONSOLIDATION STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012

1. Basis of Preparation

The pro forma consolidated statements of financial position as at 30 June 2012 as illustrated in Appendix A, for which the directors of Kejuruteraan Samudra Timur Berhad ("KSTB" or "the Company") are solely responsible, have been prepared for illustrative purposes only, for the inclusion in the Abridged Prospectus in connection with the renounceable right issue of 71,513,250 warrants ("warrant(s)") at an issue price of RM0.05 for each warrant on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.30 each in KSTB held at the entitlement date ("Rights Issue of Warrants").

The pro forma consolidated statements of financial position illustrated the effect of the above Rights Issue of Warrants, had the Rights Issue of Warrants been implemented and completed on 30 June 2012. The pro forma consolidated statements of financial position of KSTB have been properly prepared using the audited financial statements of KSTB for the financial year ended 30 June 2012 which was prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies of KSTB.

Furthermore, such financial information does not purport to predict the future financial position of KSTB.

The pro forma consolidated statements of financial position is presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2. Pro forma I

Pro forma I incorporates effect of the rights issues of 71,513,250 warrants on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.30 each in KSTB held at an issue price of RM0.05 per warrant.

The proceeds from the Rights Issue of Warrants will be utilised in the following manner:

	RM'000
Repayment of borrowings	3,150
Estimated expenses in relation to the Rights Issue of Warrants	426
	<u>3,576</u>

The estimated expenses in the relation to the Rights of Warrants of RM426,000 will be debited to the share premium account under Section 60 of the Companies Act, 1965.

ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION KSTB AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

KEJURUTERAAN SAMUDRA TIMUR BERHAD
(Incorporated in Malaysia)

Appendix B

NOTES TO THE PRO FORMA CONSOLIDATION STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012

2. Pro forma I (contd.)

The Company intends to utilise approximately RM3,150,000 of the proceeds raised from the Rights Issue of Warrants to partly settle the outstanding unsecured term loan facility under a Primary Collateralised Loan Obligation ("CLO Settlement Payment"). The balance of RM9,850,000 required for the CLO Settlement Payment shall be funded through a combination of internally generated funds of the KSTB Group with receipts from trade receivables and bank borrowings.

Based on the assumption that the CLO Settlement Payment will be completed in December 2012, the full settlement of the Primary Collateralised Loan Obligation ("CLO") will enable the Company to recognise a waiver of principal sum of RM7,000,000.

The Rights Issue of Warrants will have the following impacts on the pro forma consolidated statements of financial position:

	Increase/(Decrease)		
	Total assets RM'000	Total liabilities RM'000	Total equity RM'000
Cash and bank balances			
- proceeds from Rights Issue of Warrants	3,150		
- receipts from trade receivables	2,850		
- additional bank borrowings for CLO Settlement Payment	7,000		
- funds used for CLO Settlement Payment	(13,000)		
Trade and other receivables			
- receipts from trade receivables	(2,850)		
Loans and borrowings			
- full repayment of CLO		(20,000)	
- additional bank borrowings for CLO Settlement Payment		7,000	
Share premium			(426)
Warrant reserve			3,576
Accumulated losses			7,000
	(2,850)	(13,000)	10,150

3. Pro forma II

Pro forma II incorporates effect of the cumulative effects of Pro forma I and full exercise of warrants at the exercise price of RM0.30 each.


ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON



EY ERNST & YOUNG

CERTIFIED TRUE COPY


.....
ERNST & YOUNG
AF: 0039
CHARTERED ACCOUNTANTS

**KEJURUTERAAN SAMUDRA TIMUR
BERHAD
(142241-X)
(Incorporated in Malaysia)**

**Directors' Report and Audited Financial
Statements
30 June 2012**

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

Directors' report

The directors present their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2012.

Principal activities

The principal activities of the Company are the provision of tubular handling equipment and running services to the oil and gas industry. The principal activities of the subsidiaries and jointly controlled entities are stated in Note 14 and Note 15 to the financial statements respectively.

There have been no significant changes in the nature of these principal activities during the financial year.

Results

	Group RM'000	Company RM'000
(Loss)/profit from continuing operations, net of tax	(150)	9,466
Profit from discontinued operation, net of tax	2,440	-
Profit net of tax	<u>2,290</u>	<u>9,466</u>
Attributable to:		
Owners of the parent	1,189	9,466
Non-controlling interests	1,101	-
	<u>2,290</u>	<u>9,466</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statement of changes in equity.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the gain from disposal of 51% equity interest in a subsidiary, Sobena Offshore Inc Sdn. Bhd., amounting to approximately RM1,055,000 and RM2,843,000 respectively.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****Dividend**

No dividend has been declared or paid by the Company since the end of the previous financial year.

The directors do not recommend any final dividend in respect of the current financial year.

Directors

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Dato' Dr. Syed Jalaludin bin Syed Salim
Dato' Chee Peck Kiat @ Chee Peck Jan (vacation of office on 1 July 2012)
Dato' Nik Abdul Aziz bin Mohamed Kamil
Mohammad bin Ayob
Ishak @ Abd. Rahman bin Mohamad
Tengku Aniza binti Tengku Ab. Hamid
Onn bin Mohd. Yusoff
Leong Chee Keong
Darmendran a/l Kunaretnam
Chee Cheng Chun (alternate director to Dato' Chee
Peck Kiat @ Chee Peck Jan) (appointed on 21 December 2011 and
vacation of office on 1 July 2012)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 9(b) to the financial statements or a fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 28 to the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares of the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares of RM0.30 Each			Balance at 30.6.2012
	Balance at 01.07.2011	Acquired	Sold	
The Company				
Direct interest:				
Dato' Chee Peck Kiat @				
Chee Peck Jan	34,292,900	-	-	34,292,900
Darmendran a/l Kunaretnam	1,850,800	-	-	1,850,800
Mohammad bin Ayob	116,922	-	(116,922)	-
Leong Chee Keong	200,000	-	-	200,000
Indirect interest:				
Tengku Aniza binti Tengku				
Ab. Hamid	19,721,800	-	-	19,721,800
Leong Chee Keong	105,000	-	-	105,000

Dato' Chee Peck Kiat @ Chee Peck Jan, by virtue of his interests in shares in the Company, is also deemed interested in shares in all the Company's subsidiaries to the extent the Company has an interest.

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

Other statutory information

- (a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

Other statutory information (Contd.)

- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet its obligations when they fall due except for the bullet repayment of the balance of unsecured fixed term loan under a Primary Collateralised Loan Obligations program ("CLO Facility") amounted to RM20 million included in the current portion of the term loan as disclosed in Notes 24 and 35 to the financial statements.
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

Significant events

Details of significant events are disclosed in Note 35 to the financial statements.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 AUG 2012



Darmendran a/l Kunaretnam



Onn bin Mohd. Yusoff

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

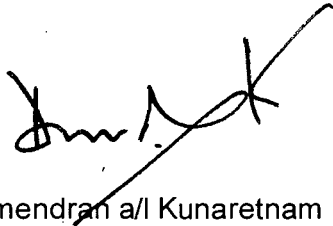
**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statement by Directors
Pursuant to Section 169(15) of the Companies Act, 1965**

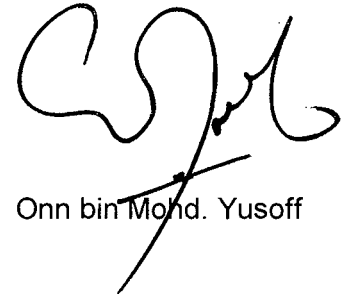
We, Darmendran a/l Kunaretnam and Onn bin Mohd. Yusoff, being two of the directors of Kejuruteraan Samudra Timur Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 10 to 97 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and their financial performance and cash flows for the year then ended.

The information set out in Note 36 on page 98 to the financial statements have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 AUG 2012



Darmendran a/l Kunaretnam



Onn bin Mohd. Yusoff

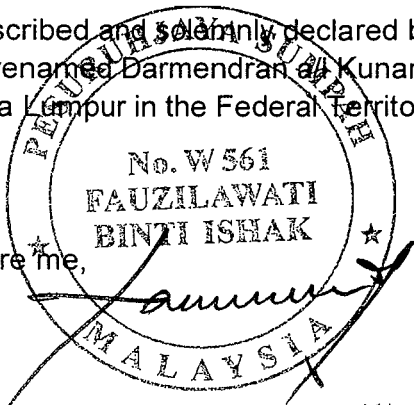
**Statutory Declaration
Pursuant to Section 169(16) of the Companies Act, 1965**

I, Darmendran a/l Kunaretnam, being the director primarily responsible for the financial management of Kejuruteraan Samudra Timur Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 10 to 98 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Darmendran a/l Kunaretnam at Kuala Lumpur in the Federal Territory on 28 AUG 2012



Darmendran a/l Kunaretnam



Before me,

2-LG-17, KOMPLEKS NIAGA UTAMA,
TINGKAT TERBAWAH,
JALAN BANGSAR UTAMA 1,
BANGSAR UTAMA,
59000 KUALA LUMPUR.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)



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**Independent auditors' report to the members of
 Kejuruteraan Samudra Timur Berhad
 (Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Kejuruteraan Samudra Timur Berhad, which comprise the statements of financial position as at 30 June 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 97.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)



**Independent auditors' report to the members of
Kejuruteraan Samudra Timur Berhad (contd.)
(Incorporated in Malaysia)**

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and of their financial performance and cash flows for the year then ended.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2.1 of the financial statements which indicates that the Group incurred a net loss of RM150,000 from continuing operations during the financial year ended 30 June 2012 and, as of that date, the Group's current liabilities exceeded its current assets by RM36,908,000. These conditions indicate the existence of a material uncertainty relating to the appropriateness of preparing the financial statements of the Group on a going concern basis.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 14 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)



Independent auditors' report to the members of
Kejuruteraan Samudra Timur Berhad (contd.)
(Incorporated in Malaysia)

Other reporting responsibilities

The supplementary information set out in Note 36 on page 98 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'Wina' followed by a flourish.

Ernst & Young
AF: 0039
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Abraham Verghese al T.V. Abraham' followed by a flourish.

Abraham Verghese al T.V. Abraham
No. 1664/10/12(J)
Chartered Accountant

Kuala Lumpur, Malaysia
28 August 2012

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Consolidated income statements
For the financial year ended 30 June 2012**

	Note	Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Continuing operations					
Revenue	4	85,779	47,420	61,708	32,030
Cost of sales	5	(65,079)	(47,523)	(42,610)	(23,619)
Gross profit/(loss)		20,700	(103)	19,098	8,411
Other items of income					
Interest income	6	9	9	9	5
Other income	7	1,248	1,270	4,358	425
Other items of expense					
Administrative expenses		(8,060)	(6,225)	(2,954)	(3,134)
Other operating expenses		(5,826)	(4,971)	(5,228)	(4,679)
Finance costs	8	(4,618)	(5,014)	(2,854)	(3,074)
Profit/(loss) before tax from continuing operations	9	3,453	(15,034)	12,429	(2,046)
Income tax expense	10	(3,603)	(488)	(2,963)	(172)
(Loss)/profit from continuing operations, net of tax		(150)	(15,522)	9,466	(2,218)
Discontinued operation					
Profit from discontinued operation, net of tax	11	2,440	1,212	-	-
Profit/(loss) net of tax		2,290	(14,310)	9,466	(2,218)
Profit/(loss) attributable to:					
From continuing operations		(48)	(15,425)	9,466	(2,218)
From discontinued operation		1,237	619	-	-
Owners of the parent		1,189	(14,806)	9,466	(2,218)
Non-controlling interests		1,101	496	-	-
		2,290	(14,310)	9,466	(2,218)
Basic earnings/(loss) per share attributable to owners of the parent (sen per share)					
	12	0.83	(10.75)		
From continuing operations	12(a)	(0.03)	(11.20)		
From discontinued operations	12(b)	0.86	0.45		

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of comprehensive income
For the financial year ended 30 June 2012**

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit/(loss) net of tax	2,290	(14,310)	9,466	(2,218)
Other comprehensive income:				
Foreign currency translation	(1,388)	1,276	-	-
Other comprehensive income for the year, net of tax	(1,388)	1,276	-	-
Total comprehensive income/ (loss) for the year	902	(13,034)	9,466	(2,218)
Total comprehensive income attributable to:				
Owners of the parent	(190)	(13,442)	9,466	(2,218)
Non-controlling interests	1,092	408	-	-
	902	(13,034)	9,466	(2,218)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of financial position
As at 30 June 2012**

	Note	Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Assets					
Non-current assets					
Property, plant and equipment	13	86,784	112,550	22,693	26,618
Investments in subsidiaries	14	-	-	20,199	31,257
Interests in jointly controlled entities	15	-	-	-	-
Investment securities	16	35	35	-	-
Intangible asset	17	-	5,242	-	-
Deferred tax assets	18	-	600	-	-
		<u>86,819</u>	<u>118,427</u>	<u>42,892</u>	<u>57,875</u>
Current assets					
Inventories	19	4,024	4,763	3,020	2,341
Trade and other receivables	20	31,331	23,185	66,443	53,779
Other current asset	21	2,168	1,111	1,712	389
Tax recoverable		216	1,088	-	836
Investment securities	16	-	-	-	-
Cash and bank balances	22	1,713	2,365	835	658
		<u>39,452</u>	<u>32,512</u>	<u>72,010</u>	<u>58,003</u>
Non-current assets held for sale	23	-	-	-	-
		<u>39,452</u>	<u>32,512</u>	<u>72,010</u>	<u>58,003</u>
Total assets		<u>126,271</u>	<u>150,939</u>	<u>114,902</u>	<u>115,878</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of financial position
As at 30 June 2012 (contd.)**

	Note	Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Equity and liabilities					
Current liabilities					
Loans and borrowings	24	43,285	62,351	20,029	38,322
Trade and other payables	25	32,061	24,724	31,464	24,157
Income tax payable		1,014	266	1,014	-
		<u>76,360</u>	<u>87,341</u>	<u>52,507</u>	<u>62,479</u>
Net current (liabilities)/assets		<u>(36,908)</u>	<u>(54,829)</u>	<u>19,503</u>	<u>(4,476)</u>
Non-current liabilities					
Loans and borrowings	24	20,371	26,265	38	59
Deferred tax liabilities	18	3,458	3,702	3,253	3,702
		<u>23,829</u>	<u>29,967</u>	<u>3,291</u>	<u>3,761</u>
Total liabilities		<u>100,189</u>	<u>117,308</u>	<u>55,798</u>	<u>66,240</u>
Net assets		<u>26,082</u>	<u>33,631</u>	<u>59,104</u>	<u>49,638</u>
Equity attributable to owners of the parent					
Share capital	26	42,908	42,908	42,908	42,908
Share premium	26	8,412	8,412	8,412	8,412
Other reserves	27	3,801	5,180	4,469	4,469
(Accumulated losses)/retained earnings		(28,838)	(30,027)	3,315	(6,151)
		<u>26,283</u>	<u>26,473</u>	<u>59,104</u>	<u>49,638</u>
Non-controlling interests		<u>(201)</u>	<u>7,158</u>	<u>-</u>	<u>-</u>
Total equity		<u>26,082</u>	<u>33,631</u>	<u>59,104</u>	<u>49,638</u>
Total equity and liabilities		<u>126,271</u>	<u>150,939</u>	<u>114,902</u>	<u>115,878</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)

Statements of changes in equity
For the financial year ended 30 June 2012

	← Non-distributable →		← Attributable to equity holders of the parent →		← Non-distributable →		Non- controlling interests RM'000					
	Equity, total RM'000	Equity attributable to owners of the parent, total RM'000	Share capital RM'000	Share premium RM'000	Share capital RM'000	Share premium RM'000		Other reserves, total RM'000				
Group												
Opening balance at 1 July 2011	33,631	26,473	42,908	8,412	42,908	(30,027)	5,180	4,469	711	7,158		
Total comprehensive income/(loss)	902	(190)	-	-	-	1,189	(1,379)	-	(1,379)	1,092		
Transactions with owners in their capacity as owners:												
Divestment of a subsidiary	(7,305)	-	-	-	-	-	-	-	-	-		(7,305)
Dissolution of a subsidiary	(1,146)	-	-	-	-	-	-	-	-	-		(1,146)
Total transactions with owners	(8,451)	-	-	-	-	-	-	-	-	-		(8,451)
Closing balance at 30 June 2012	26,082	26,283	42,908	8,412	42,908	(28,838)	3,801	4,469	(668)	(201)		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of changes in equity
For the financial year ended 30 June 2012 (contd.)**

Group	Equity, total RM'000	Equity attributable to owners of the parent, total RM'000		Attributable to equity holders of the parent			Non- controlling interests
		Share capital RM'000	Share premium RM'000	Share Accumulated losses RM'000	Other reserves, total RM'000	Revaluation reserve RM'000	
Opening balance at 1 July 2010	36,571	31,944	9,282	(15,221)	3,816	4,469	6,750
Total comprehensive income/(loss)	(13,034)	-	-	(14,806)	1,364	-	408
Transactions with owners							
Issuance of new ordinary shares pursuant to the rights issue	10,964	10,964	-	-	-	-	-
Share issuance expense	(870)	-	(870)	-	-	-	-
Total transactions with owners	10,094	10,964	(870)	-	-	-	-
Closing balance at 30 June 2011	33,631	42,908	8,412	(30,027)	5,180	4,469	7,158

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of changes in equity
For the financial year ended 30 June 2012 (contd.)**

Company	Non-distributable			(Accumulated losses)/ retained earnings RM'000	Non-distributable	
	Equity, total RM'000	Share capital RM'000	Share premium RM'000		Revaluation reserve RM'000	
Opening balance at 1 July 2011	49,638	42,908	8,412	(6,151)	4,469	
Total comprehensive income	9,466	-	-	9,466	-	
Closing balance at 30 June 2012	59,104	42,908	8,412	3,315	4,469	
Opening balance at 1 July 2010	41,762	31,944	9,282	(3,933)	4,469	
Total comprehensive loss	(2,218)	-	-	(2,218)	-	
Transactions with owners						
Issuance of new ordinary shares pursuant to the rights issue	10,964	10,964	-	-	-	
Share issuance expense	(870)	-	(870)	-	-	
Total transactions with owners	10,094	10,964	(870)	-	-	
Closing balance at 30 June 2011	49,638	42,908	8,412	(6,151)	4,469	

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of cash flows
For the financial year ended 30 June 2012**

Group	Note	2012 RM'000	2011 RM'000
Operating activities			
Profit/(loss) before tax from continuing operations		3,453	(15,034)
Profit before tax from discontinued operation	11	3,272	1,628
Profit/(loss) before tax, total		6,725	(13,406)
<u>Adjustments for:</u>			
Depreciation of property, plant and equipment	13	17,283	18,896
Bad debts written off	9	-	1
Loss on disposal of property, plant and equipment	9	827	666
Gain on disposal of assets held for sale	7	-	(1,126)
Gain on disposal of subsidiary	7	(1,055)	-
Impairment loss on held-to-maturity financial asset	9	-	345
Impairment loss on trade and other receivables	9	160	-
Interest expense			
- Continuing operations	8	4,618	5,014
- Discontinued operation	11	299	323
Interest income	6	(9)	(9)
Property, plant and equipment written off	9	810	71
Unrealised loss/(gain) on foreign exchange	9	378	(1,974)
Total adjustments		23,311	22,207
Operating cash flows before changes in working capital		30,036	8,801
<u>Changes in working capital</u>			
(Increase)/decrease in inventories		(1,369)	53
Increase in trade and other receivables		(19,578)	(4,490)
Increase/(decrease) in trade and other payables		11,224	(6,493)
Total changes in working capital		(9,723)	(10,930)
Cash flows from/(used in) operations		20,313	(2,129)
Interest received		9	9
Interest paid		(3,166)	(5,337)
Net taxes paid		(2,669)	(1,144)
Net cash flows from/(used in) operating activities		14,487	(8,601)

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of cash flows
For the financial year ended 30 June 2012 (contd.)**

	Note	2012 RM'000	2011 RM'000
Investing activities			
Proceeds from divestment of a subsidiary	11	11,867	-
Proceeds from disposal of assets held for sale		-	2,994
Proceeds from disposal of property, plant and equipment		388	1,917
Purchase of property, plant and equipment	13	(7,675)	(4,002)
Net cash flows from investing activities		4,580	909
Financing activities			
Proceeds from issue of ordinary shares	26	-	10,964
Share issuance expense	26	-	(870)
Net payment of hire purchase and finance leases		(694)	(1,572)
Net repayment of term loans and revolving credit		(8,142)	(2,139)
Non-controlling interest arising from dissolution of a subsidiary company		(1,146)	-
Net cash flows (used in)/from financing activities		(9,982)	6,383
Net decrease in cash and cash equivalents		9,085	(1,309)
Effects of exchange rate changes on cash and cash equivalents		(1,764)	3,250
Cash and cash equivalents at 1 July		(5,608)	(7,549)
Cash and cash equivalents at 30 June	22	1,713	(5,608)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

**Statements of cash flows
For the financial year ended 30 June 2012 (contd.)**

Company	Note	2012 RM'000	2011 RM'000
Operating activities			
Profit/(loss) before tax, total		12,429	(2,046)
<u>Adjustments for:</u>			
Depreciation of property, plant and equipment	13	6,778	7,973
Gain on disposal of property, plant and equipment	7	-	(81)
Gain on disposal of investment in a subsidiary	7	(2,843)	-
(Reversal of)/impairment loss on:			
- Investment in a subsidiary	9	(18)	18
- Held to maturity investment	9	-	345
Interest expense	8	2,854	3,074
Interest income	6	(9)	(5)
Property, plant and equipment written off	9	37	68
(Reversal of)/impairment loss on amount due from subsidiaries	9	(63)	39
Unrealised loss on foreign exchange	9	8	48
Total adjustments		6,744	11,479
Operating cash flows before changes in working capital		19,173	9,433
<u>Changes in working capital</u>			
Increase in inventories		(679)	(165)
Increase in trade and other receivables		(13,804)	(12,758)
Increase/(decrease) in trade and other payables		6,061	(91)
Total changes in working capital		(8,422)	(13,014)
Cash flows from/(used in) operations		10,751	(3,581)
Interest received		9	5
Interest paid		(1,651)	(3,074)
Taxes paid		(1,562)	(85)
Net cash flows from/(used in) operating activities		7,547	(6,735)

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

Statements of cash flows

For the financial year ended 30 June 2012 (contd.)

	Note	2012 RM'000	2011 RM'000
Investing activities			
Net proceed from disposal of investment in a subsidiary		13,901	-
Proceeds from disposal of property, plant and equipment		-	97
Purchase of property, plant and equipment	13	(2,839)	(1,099)
Net cash flows from/(used in) investing activities		11,062	(1,002)
Financing activities			
Proceeds from issuance of ordinary shares	26	-	10,964
Share issuance expense	26	-	(870)
Net payment of hire purchase and finance lease		(541)	(1,501)
Net repayment of term loans		(10,302)	(275)
Net cash flows (used in)/from financing activities		(10,843)	8,318
Net increase in cash and cash equivalents		7,766	581
Cash and cash equivalents at 1 July		(6,931)	(7,512)
Cash and cash equivalents at 30 June	22	835	(6,931)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****Notes to the financial statements
For the financial year ended 30 June 2012****1. Corporate information**

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Bursa Malaysia Securities Berhad ("Bursa"). The registered office and the principal place of business of the Company is located at Suite A-21-13A, Level 21 Menara UOA Bangsar, No. 5, Jalan Bangsar Utama 1, Bangsar Utama, 59200 Kuala Lumpur.

The principal activities of the Company are the provision of tubular handling equipment and running services to the oil and gas industry. The principal activities of the subsidiaries and jointly controlled entities are stated in Note 14 and Note 15 respectively.

There have been no significant changes in the nature of these principal activities during the financial year.

2. Summary of significant accounting policies**2.1 Basis of preparation**

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 March 2010, 1 July 2010, and 1 January 2011 as described fully in Note 2.2.

The financial statements of the Group and of the Company have also been prepared on a historical basis, modified to include the revaluation of certain equipment included in the property, plant and equipment.

The Group incurred loss of RM150,000 for the year ended 30 June 2012 from continuing operations and as at that date, current liabilities of the Group exceeded current assets by RM36,908,000. The continuing losses of the Group mainly attributable to the dismal performance of the land rig services operation, which has been a concern to the Board coupled with the upcoming settlement of the RM20 million Collateralised Loan Obligation ("CLO") on or before 31 December 2012. These factors have raised significant concern regarding the Group's ability to continue as a going concern, which contemplates the realisation of assets and liabilities in the normal course of business.

The Group continued to pursue and implement its pre-emptive plan initiated in the previous financial year with enhancement made during the current financial year to address the identified challenging areas which have achieved positive progress as follows:-

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.1 Basis of preparation (contd.)**RM30 million unsecured fixed term loan facility under a Primary Collateralised Loan Obligation ("CLO") Program ("CLO Facility")

The Company announced that the Company had on 28 June 2012 entered into a Settlement Agreement with Malaysian Trustees Berhad and Prima Uno Behad for the purpose of settlement of the CLO Facility, subject to the terms and conditions as stipulated in the Settlement Agreement, disclosed in Note 35(c).

The Company intends to raise funds to enable it to completely fulfill the above mentioned settlement conditions. In connection with the aforesaid, the Company proposes to undertake the Proposals as disclosed in Note 35(d).

Land Rig Service Operation

The Group continued with its effort of enhancing the utilization of the land drilling rigs through charter, joint cooperation and/or partnership arrangements to produce better revenue contribution and results for its Land Rig Service Operation. It has in the 2nd half of the current financial year upon completion of the drilling project in November 2011, chartered to its local joint operation partner its 1000HP rated rig for a drilling project in East Kalimantan with scheduled spud-in in September 2012 and drilling work up to 4th quarter of the next financial year ending 30 June 2013. The Group is also actively working with its partner/charterer of the other 750HP rated rig which was on active charter for the current financial year that expired on 30 June 2012 for potential project for remaining calendar year 2012 and beyond, to reduce stack-up period/time of the said rig. While the Group endeavour to seek better utilisation of its land drilling rigs, it is still actively looking for suitable investors to invest in its land rig business through its appointed consultants and agents as well as exploring the same with its local joint operation partner in Indonesia. The Group is also open to securing investor(s) to buy out its land rig business or assets so that the Group may remain focused on its current core business, provision of tubular handling equipment and running services.

Based on the forecasted cash flow information which included the above factors, the directors believe that the Group has sufficient cash flow resources to continue as going concern. In arriving at the cash flow forecast, the directors have also assumed that the Group will continue to have the support of their bankers and creditors and the Group is able to operate profitably in the foreseeable future and, consequently, the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

These financial statements do not include any adjustment should the going concern assumption prove to be inappropriate.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

2. Summary of significant accounting policies (contd.)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 July 2011, the Group and the Company adopted the following new and amended FRSs and IC Interpretations mandatory for annual periods beginning on or after 1 July 2011:

<u>Description</u>	<u>Effective for annual periods beginning on or after</u>
FRS 1 First-time Adoption of Financial Reporting Standards	1 July 2010
Amendments to FRS 2 Share-based Payment	1 July 2010
FRS 3 Business Combinations	1 July 2010
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 127 Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 138 Intangible Assets	1 July 2010
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 132: Classification of Rights Issues	1 March 2010
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 1: Limited Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 1: Additional Exemptions for First-time Adopters	1 January 2011
IC Interpretation 4 Determining Whether an Arrangement contains a Lease	1 January 2011
<u>Improvements to FRS issued in 2010</u>	
FRS 1 First-time Adoption of Financial Reporting Standards	1 January 2011
FRS 3 Business Combinations	1 January 2011
FRS 7 Financial Instruments: Disclosures	1 January 2011
FRS 101 Presentation of Financial Statements	1 January 2011
FRS 121 The Effects of Changes in Foreign Exchange Rates	1 January 2011
FRS 128 Investments in Associates	1 January 2011
FRS 131 Interests in Joint Ventures	1 January 2011
FRS 132 Interim Financial Reporting	1 January 2011
FRS 139 Financial Instruments: Recognition and Measurement	1 January 2011
IC Interpretation 13 Customer Loyalty Programmes	1 January 2011

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.2 Changes in accounting policies (contd.)**

Adoption of the above standards and interpretations did not have any significant effect on the financial performance and position of the Group and of the Company except for those discussed below:

Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements

The revised standards are effective for annual periods beginning on or after 1 July 2010. The revised FRS 3 introduces a number of changes in accounting for business combinations occurring after 1 July 2010. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

The revised FRS 3 continues to apply the acquisition method to business combinations but with some significant changes. All payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs are expensed.

The revised FRS 3 does not have any significant effect on the financial performance and position of the Group during the year as there were no material business combinations in the current year.

The amendments to FRS 127 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

Amendments to FRS 7: Improving Disclosures about Financial Instruments

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. A reconciliation between the beginning and ending balance for Level 3 fair value measurements is required. Any significant transfers between levels of the fair value hierarchy and the reasons for those transfers need to be disclosed. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 31. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 32(b).

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.3 Malaysian Financial Reporting Standards**

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 30 June 2013. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group has established a project team to plan and manage the adoption of the MFRS Framework.

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the year ended 30 June 2012 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 30 June 2013.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full except for unrealised losses which are not eliminated if there are indications of impairment.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.4 Basic of consolidation (contd.)**

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination. Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. The accounting policy for goodwill is set out in Note 2.8. Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.5 Transactions with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. Transactions with non-controlling interests are accounted for using the entity concept method, whereby, transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

2.6 Foreign currency**(a) Functional and presentation currency**

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.6 Foreign currency (contd.)****(b) Foreign currency transactions**

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(c) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

2. Summary of significant accounting policies (contd.)

2.7 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Certain equipment were subsequently revalued and stated at their revalued amounts. However, these properties have not been revalued since as the Group availed itself to the transitional provisions of IAS 16 (Revised): Property, Plant and Equipment, by virtue of which these equipment continue to be stated at their revalued amount less accumulated depreciation and impairment.

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

Capital work-in-progress is not depreciated. 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:

Factory buildings	7 - 50 years
Plant and machinery, tools and portable cabin	10% - 20%
Equipment and accessories	10%
Office equipment, furniture and fittings	10% - 20%
Motor vehicles	20%
Electrical substation	20%
Renovations	20%
Land rig	15 years

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.8 Intangible assets****Goodwill**

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.6.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2006 are deemed to be assets and liabilities of the Company and are recorded in RM at the rates prevailing at the date of acquisition.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.9 Impairment of non-financial assets (contd.)**

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

2.10 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.11 Joint venture**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The Group recognises its interest in joint venture using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its consolidated financial statements. The joint venture is proportionately consolidated from the date the Group obtains joint control until the date the Group ceases to have joint control over the joint venture.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity.

The financial statements of the joint venture are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies into line with those of the Group.

In the Company's separate financial statements, its investment in joint venture is stated at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and the carrying amount is included in profit or loss.

2.12 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include loans and receivables, held-to-maturity investments and available-for-sale financial assets.

(a) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

2. Summary of significant accounting policies (contd.)**2.12 Financial assets (contd.)****(a) Loans and receivables (contd.)**

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

(b) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

(c) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale or are not classified in any of the two preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group and the Company's right to receive payment is established.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.12 Financial assets (contd.)****(c) Available-for-sale financial assets (contd.)**

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset.

2.13 Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.13 Impairment of financial assets (contd.)**

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.13 Impairment of financial assets (contd.)****(c) Available-for-sale financial assets**

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.15 Inventories

Inventories which are mainly consumables are stated at lower of cost and net realisable value.

Cost is determined using the first in, first out method. The cost of consumables comprises costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.16 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.16 Financial liabilities (contd.)**

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.17 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.18 Employee benefits****(i) Short term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

2.19 Leases - As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.20 Discontinued operation**

A component of the Group is classified as a "discontinued operation" when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated major line of business or geographical area of operations. A component is deemed to be held for sale if its carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Upon classification as held for sale, non-current assets and disposal groups are not depreciated and are measured at the lower of carrying amount and fair value less costs to sell. Any differences are recognised in profit or loss.

2.21 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

(i) Revenue from services

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

(ii) Rental income from equipment and land rig

Rental income is recognised on an accrual basis.

2.22 Income taxes**(a) Current tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.22 Income taxes (contd.)****(b) Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.22 Income taxes (contd.)****(b) Deferred tax (contd.)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

2.23 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 34, including the factors used to identify the reportable segments and the measurement basis of segment information.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****2. Summary of significant accounting policies (contd.)****2.24 Share capital and share issuance expenses**

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.25 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Classification of jointly controlled entities

In the previous financial years, the management had classified KST Gagie Labuan Ltd ("KSTGLL") as a jointly controlled entity despite having 51% shareholdings by virtue of the shareholders' agreement signed between the Company and the joint venture partner, namely Gagie Corporation S.A. ("Gagie"), on 19 December 2005.

On 5 April 2007, the Company terminated the shareholders' agreements on the ground of material breaches by the joint venture partner. In response to the aforesaid Gagie has on 1 November 2007 obtained from the Court various injunctions against the Company to restrain the usage of the assets of KSTGLL without the consent of the joint venture partner.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****3. Significant accounting judgements and estimates (contd.)****3.1 Judgements made in applying accounting policies (contd.)****(a) Classification of jointly controlled entities (contd.)**

Gagie has accepted the termination/repudiation of the shareholders' agreement and both Gagie and the Company have referred the matters arising from the termination/repudiation to arbitration. The arbitration hearing exercise which commenced on 19 May 2009 has been completed and is currently pending delivery of arbitration judgement by the arbitrator.

Even though the shareholders' agreement has been terminated, the management, after appropriate consultation with its solicitors, has continued to classify KSTGLL as a jointly controlled entity due to the deadlock situation arising from the disputes which restrained the Company from exercising control over KSTGLL despite having 51% shareholding. Accordingly, the financial statements of KSTGLL have been accounted for using the equity method in accordance with FRS 131 – Interests in Joint Ventures.

Had the Company demonstrated its ability to exercise control over KSTGLL by virtue of its 51% shareholdings, KSTGLL would have been classified as a subsidiary. As a consequence, the results and the assets and liabilities of KSTGLL would have been fully consolidated into the Group's results.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for corporate guarantee extended to a jointly controlled entity

The Company had provided corporate guarantees to two financial institutions totaling USD9,080,000 (approximately RM30,020,750), for term loans extended to a jointly controlled entity, KSTGLL, for the purpose of purchasing oilfield fishing equipment.

The termination of the shareholders' agreement and the injunctions granted by the Court as explained in Note 3.1(a) have rendered it impossible for the Group to continue with the oilfield fishing operations. Further the Board of Directors of KSTGLL had on 27 November 2007, approved the disposal of all its oilfield fishing equipment and resolved that all proceeds from the disposal and receivables from the customers pertaining to the oilfield fishing operations of the jointly controlled entities are to be used to partially repay the term loans.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****3. Significant accounting judgements and estimates (contd.)****3.2 Key sources of estimation uncertainty (contd.)****(a) Provision for corporate guarantee extended to a jointly controlled entity (contd.)**

In connection with the aforesaid, the Company had in previous financial years made a full provision for potential crystallisation of the corporate guarantees amounted to RM6,956,395 after taking into consideration of the estimated value of fishing equipment established by reference to the quotation of prospective purchasers and balance receivables then.

In July and September 2008, KSTGLL has disposed to Smith International Inc all its principal oilfield fishing tools and equipment identified for a total cash consideration of USD3,773,050 (equivalent to RM12,884,211 based on the exchange rate of USD1.00:RM3.4148). The proceeds were principally utilised to partially repay the aforesaid term loans.

Based on the estimated value of the remaining fishing equipment and tools following the disposal and after taking into consideration of the remaining of the term loans mentioned above as at end of the financial year, no further provision in relation to the corporate guarantees granted by the Company is required as at reporting date.

(b) Claim of damages by joint venture partner

As disclosed in Note 15, the joint venture partner, Gagie, has in the previous financial year accepted the termination/repudiation of the shareholders' agreements by the Company and both parties have agreed to refer matters arising from the repudiation / termination to arbitration. Gagie has also taken legal action to refrain the Company from dealing with the assets and receivables of the jointly controlled entities to continue with the implementation of oilfield fishing contract through a wholly owned subsidiary of the Company namely KST Fishing Services Sdn Bhd ("KST Fishing"). In its filing with the Court, Gagie is claiming for unspecified amount of damages on the "diversion" of oilfield fishing sub-contracting works from jointly controlled entities to KST Fishing.

The Group has responded to the aforesaid with a counter claim for unspecified amount of damages on Gagie and its directors for wrongful and tortious acts in the management of assets belonging to KSTGLL.

The management, after appropriate consultation with its solicitors, is of the opinion that the Company has valid defence over the claims by Gagie, although it is not possible to predict the outcome of the litigation. The management is also of the opinion that even if Gagie were to succeed in its claims or some of its claims, the damages would not be material. Accordingly, no provision has been made in respect of the claims of damages by Gagie in the financial statements.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****3. Significant accounting judgements and estimates (contd.)****3.2 Key sources of estimation uncertainty (contd.)****(c) Impairment of goodwill**

Goodwill recognised in the financial statements is reviewed annually for potential impairment. This process requires an estimation of the value-in-use of the cash-generating-units ("CGU") to which goodwill is assessed. In order to arrive at the value-in-use, the management has to estimate the expected future cash flows from the CGU and to apply a set of key assumptions and suitable discounting factors to calculate the net present value of the expected cash flows. The carrying amount of goodwill was derecognised during the current financial year following the disposal of a subsidiary (2011: RM5,242,000). Further details are disclosed in Note 17.

(d) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(e) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed reinvestment allowances to the extent that it is probable that taxable profit will be available against which the losses and reinvestment allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of reinvestment allowances of the Group was RMNil (2011: RM5,691,000).

(f) Impairment of cost of investment in a subsidiary and its oilfield fishing equipment

The management determines whether the carrying amounts of its investment in a subsidiary and its fishing equipment are impaired at reporting date. This involves measuring the recoverable amounts which includes fair value less costs to sell and discounted cash flow analysis. In performing the discounted cash flow analysis, the management considered the cessation of the oilfield fishing business and the quotation of prospective purchasers on the oilfield fishing equipment.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

3. Significant accounting judgements and estimates (contd.)

3.2 Key sources of estimation uncertainty (contd.)

(f) Impairment of cost of investment in a subsidiary and its oilfield fishing equipment (contd.)

Based on the opinion of the directors, full impairment on the cost of investment in the subsidiary is necessary and adequate impairment loss has been recognised in the income statement in the previous financial year in respect of the oilfield fishing equipment.

4. Revenue

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Rental of equipment	60,888	31,962	61,708	32,030
Services rendered	10,408	8,964	-	-
Rental of land rig	14,483	6,494	-	-
	<u>85,779</u>	<u>47,420</u>	<u>61,708</u>	<u>32,030</u>

5. Cost of sales

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Rental of equipment	41,790	23,201	42,610	23,619
Services rendered	6,889	5,941	-	-
Land rig cost	16,400	18,381	-	-
	<u>65,079</u>	<u>47,523</u>	<u>42,610</u>	<u>23,619</u>

6. Interest income

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest income from:				
Loans and receivables	<u>9</u>	<u>9</u>	<u>9</u>	<u>5</u>

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

7. Other income

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Income from dissolution of a subsidiary	-	-	1,177	-
Gain on disposal of assets held for sale	-	1,126	-	-
Gain on disposal of investment in subsidiary	1,055	-	2,843	-
Gain on disposal of property, plant and equipment	-	-	-	81
Rental income	186	134	336	336
Miscellaneous	7	10	2	8
	<u>1,248</u>	<u>1,270</u>	<u>4,358</u>	<u>425</u>

8. Finance costs

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Bank overdrafts	297	485	298	485
Revolving credits	528	536	-	-
Hire purchases	26	78	25	77
Term loans	3,558	3,834	2,366	2,431
Amount due to a director	195	20	152	20
Others	14	61	13	61
	<u>4,618</u>	<u>5,014</u>	<u>2,854</u>	<u>3,074</u>

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

9. Profit/(loss) before tax from continuing operations

The following items have been included in arriving at profit/(loss) before tax from continuing operations:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Staff costs (Note a)	24,771	17,814	12,763	8,625
- Continuing	16,688	11,785	-	-
- Discontinuing	8,083	6,029	-	-
Directors' remuneration (Note b)	1,399	1,331	1,371	1,301
- Continuing	1,377	1,307	-	-
- Discontinuing	22	24	-	-
Auditors' remuneration:				
- Statutory audit	182	145	80	60
- Continuing	139	116	-	-
- Discontinuing	43	29	-	-
- Underprovision in prior year	27	23	20	20
- Continuing	27	11	-	-
- Discontinuing	-	12	-	-
Bad debts writren off	-	1	-	-
Depreciation of property, plant and equipment (Note 13)	17,283	18,896	6,778	7,973
- Continuing	14,107	15,221	-	-
- Discontinuing	3,176	3,675	-	-
(Reversal of)/impairment loss on				
- amount due from subsidiaries (Note 20)	-	-	(63)	39
- trade and other receivables (Note 20)	160	-	-	-
(Reversal of)/impairment loss on:				
- Investment in subsidiary (Note 14)	-	-	(18)	18
- Held-to-maturity financial asset	-	345	-	345
Loss/(gain) on disposal of property, plant and equipment	827	666	-	-
- Continuing	760	672	-	-
- Discontinuing	67	(6)	-	-
Property, plant and equipment written off	810	71	37	68
- Continuing	37	71	-	-
- Discontinuing	773	-	-	-

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

9. Profit/(loss) before tax from continuing operations (contd.)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net foreign exchange (gain)/ loss:				
- Realised	(418)	798	(335)	(90)
- Continuing	(389)	(36)	-	-
- Discontinuing	(29)	834	-	-
- Unrealised	378	(1,974)	8	48
- Continuing	626	(1,517)	-	-
- Discontinuing	(248)	(457)	-	-
Rental:				
- Warehouse	3,309	3,356	928	1,037
- Continuing	1,634	1,576	-	-
- Discontinuing	1,675	1,780	-	-
- Office	416	210	226	41
- Continuing	340	131	-	-
- Discontinuing	76	79	-	-
- Equipment	95	69	68	45
- Continuing	68	46	-	-
- Discontinuing	27	23	-	-
- Motor vehicles	356	498	60	30
- Continuing	344	419	-	-
- Discontinuing	12	79	-	-

(a) Staff costs

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Wages and salaries	14,155	11,406	5,695	5,045
Define contribution plan	1,882	1,530	1,081	858
Social security costs	205	187	100	87
Offshore allowances	3,404	1,874	3,404	1,874
Other staff related expenses	5,125	2,817	2,483	761
	<u>24,771</u>	<u>17,814</u>	<u>12,763</u>	<u>8,625</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

9. Profit/(loss) before tax from continuing operations (contd.)

(b) Directors' remuneration

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors of the Company				
Executive:				
- Salaries and other allowance	1,093	981	1,093	981
- Defined contribution plan	151	143	151	143
- Social security costs	1	1	1	1
- Bonuses	-	49	-	49
	<u>1,245</u>	<u>1,174</u>	<u>1,245</u>	<u>1,174</u>
Non-Executive:				
- Fees	124	126	96	96
- Other emoluments	30	31	30	31
	<u>154</u>	<u>157</u>	<u>126</u>	<u>127</u>
Total	<u>1,399</u>	<u>1,331</u>	<u>1,371</u>	<u>1,301</u>

The number of directors of the Company whose total remuneration during the period fell within the following bands is analysed below:

Directors of the Company	Number of Directors			
	2012 Executive Directors	2012 Non-Executive Directors	2011 Executive Directors	2011 Non-Executive Directors
Below RM50,000	-	6	-	6
RM250,001 - RM300,000	1	-	1	-
RM300,001 - RM350,000	1	-	1	-
RM550,001 - RM600,000	1	-	1	-

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

10. Income tax

Major components of income tax expense

The major components of income tax expense for the years ended 30 June 2012 and 2011 are:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Statement of comprehensive income:				
Current income tax - continuing operations:				
- Malaysian income tax	3,819	1,112	3,423	805
- Under/(over)provision in prior years	28	(301)	(11)	(405)
	<u>3,847</u>	<u>811</u>	<u>3,412</u>	<u>400</u>
Deferred income tax - continuing operations (Note 18):				
- Origination and reversal of temporary differences	(419)	(258)	(459)	7
- Under/(over)provision in prior years	175	(65)	10	(235)
	<u>(244)</u>	<u>(323)</u>	<u>(449)</u>	<u>(228)</u>
Income tax attributable to continuing operations	3,603	488	2,963	172
Income tax attributable to discontinued operation (Note 11)	832	416	-	-
Income tax expense recognised in profit or loss	<u>4,435</u>	<u>904</u>	<u>2,963</u>	<u>172</u>

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

10. Income tax (contd.)

Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 30 June 2012 and 2011 are as follows:

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Profit/(loss) before tax from continuing operations	3,453	(15,034)	12,429	(2,046)
Profit before tax from discontinued operation (Note 11)	3,272	1,628	-	-
Accounting profit before tax	<u>6,725</u>	<u>(13,406)</u>	<u>12,429</u>	<u>(2,046)</u>
Tax at Malaysian statutory tax rate of 25% (2011:25%)	1,681	(3,352)	3,107	(512)
Non-deductible expenses	3,641	4,642	862	1,324
Income not subject to taxation	(1,090)	-	(1,005)	-
Effect of utilisation of current year capital allowances and reinvestment allowances	-	(45)	-	-
Under/(over)provision of deferred tax in prior years	175	53	10	(235)
Under/(over)provision of income tax expense in prior years	28	(394)	(11)	(405)
Income tax expense recognised in profit or loss	<u>4,435</u>	<u>904</u>	<u>2,963</u>	<u>172</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year. The domestic statutory rate will remain at 25% in subsequent years of assessment.

As at 30 June 2012, the Company has tax exempt profits available for distribution of approximately RM3,750,000 (2011: RM3,750,000), subject to the agreement of the Inland Revenue Board.

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

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**Kejuruteraan Samudra Timur Berhad
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11. Discontinued operation

On 31 January 2012, the Company announced the decision of its Board of Directors to dispose of 51% equity interest in Sobena Offshore Inc. Sdn. Bhd. ("SOISB"), which was previously reported in the oil and gas pipes threading services segment (hereinafter referred to as "Disposal of Sobena"). The Disposal of Sobena enables the Company to realise its investment in SOISB at an attractive valuation.

As at 30 June 2012, the assets and liabilities related to SOISB have been deconsolidated in the statement of financial position, and its results are presented separately on the consolidated income statement as "Profit from discontinued operation, net of tax". The Disposal of Sobena was completed on 25 June 2012 (Note 35(b)).

Statement of comprehensive income disclosures

The results of SOISB for the period ended 31 May 2012 has been presented as "Profit for the period from discontinued operation" are as follows:

	Group	
	1.7.2011	1.7.2010
	to	to
	31.5.2012	30.6.2011
	RM'000	RM'000
Revenue	28,091	20,661
Cost of sales	(23,350)	(18,756)
Gross profit	4,741	1,905
Other income	1,176	1,958
Administrative expenses	(1,052)	(711)
Other operating expenses	(1,294)	(1,201)
Profit from operations	3,571	1,951
Finance costs	(299)	(323)
Profit before tax from discontinued operation	3,272	1,628
Taxation	(832)	(416)
Profit from discontinued operation, net of tax	<u>2,440</u>	<u>1,212</u>

Statement of cash flows disclosures

The cash flows attributable to SOISB are as follows:

	Group	
	31.5.2012	30.6.2011
	RM'000	RM'000
Operating	3,206	625
Investing	(4,158)	(1,477)
Financing	3,038	1,770
Net cash inflows	<u>2,086</u>	<u>918</u>

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11. Discontinued operation (contd.)

Statement of financial position disclosures

The major classes of assets and liabilities of SOISB recorded in the consolidated financial statements as at 31 May 2012 and summary of the effects of the Disposal of Sobena are as follows:

	RM'000	RM'000
Property, plant and equipment		14,182
Deferred tax assets		600
Inventories		2,108
Trade and other receivables		10,215
Cash and bank balances		2,034
		<u>29,139</u>
Trade and other payables		(5,473)
Loans and borrowings		(8,367)
Tax payable		(390)
Net assets		<u>14,909</u>
Share of net assets deemed disposed (51%)		7,604
Goodwill for 51% equity interest in the subsidiary (Note 17)		5,242
Total consideration, net of related expenses		
- Proceeds from the Disposal of Sobena	14,000	
- Expenses incurred for the Disposal of Sobena	(99)	
Gain on disposal of the subsidiary (Note 7)		<u>(1,055)</u>
Total consideration, net of related expenses		13,901
Cash and cash equivalent of the subsidiary disposed off		(2,034)
Net cash inflow on disposal of the subsidiary		<u>11,867</u>

12. Earnings/(loss) per share

Basic earnings/(loss) per share amounts are calculated by dividing profit/(loss) for the year, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

The following tables reflect the profit and share data used in the computation of basic earnings/(loss) per share for the years ended 30 June:

	Group	
	2012	2011
	RM'000	RM'000
Profit/(loss) net of tax attributable to owners of the parent	1,189	<u>(14,806)</u>

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12. Earnings/(loss) per share (contd.)

	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares for basic earnings per share computation	143,027	137,720
Basic earnings/(loss) per share (sen)	0.83	(10.75)

a) Continuing operations

Basic earnings/(loss) per share amounts are calculated by dividing profit/(loss) for the year from continuing operations, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

The following tables reflect the profit and share data used in the computation of basic loss per share for the years ended 30 June:

	Group	
	2012 RM'000	2011 RM'000
Profit/(loss) net of tax attributable to owners of the parent	1,189	(14,806)
Less: Profit from discontinued operation, net of tax, attributable to owners of the parent	(1,237)	(619)
Loss net of tax from continuing operations attributable to owners of the parent used in the computation of basic loss per share	<u>(48)</u>	<u>(15,425)</u>
	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares for basic earnings per share computation	143,027	137,720
Basic loss per share (sen)	<u>(0.03)</u>	<u>(11.20)</u>

b) Discontinued operation

The basic earnings per share from discontinued operation are calculated by dividing the profit from discontinued operation, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares for basic earnings per share computation. These profit and share data are presented in the tables in Note 12(a).

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

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13. Property, plant and equipment

	Buildings RM'000	Plant and machinery, tools and portable cabin RM'000	Equipment and accessories RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Electrical sub-station RM'000	Renovations RM'000	Land rigs RM'000	Capital work- in-progress RM'000	Total RM'000
As at 30 June 2012										
Group										
Cost / Valuation										
At 1 July 2011	6,657	47,977	82,665	2,949	2,814	141	1,649	80,333	660	225,845
Additions	338	4,417	2,686	217	56	-	12	-	-	7,726
Attributable to discontinued operation (Note 11)	(5,151)	(32,000)	-	(364)	(1,623)	(141)	(690)	-	-	(39,969)
Transfer	660	-	-	-	-	-	-	-	(660)	-
Write-offs	(145)	(2,609)	(44)	(381)	-	-	(971)	-	-	(4,150)
Disposals	-	(1,450)	-	(3)	-	-	-	(1,546)	-	(2,999)
Exchange differences	-	-	-	(1)	-	-	-	-	-	(1)
At 30 June 2012	2,359	16,335	85,307	2,417	1,247	-	-	78,787	-	186,452
Accumulated depreciation and impairment										
At 1 July 2011	2,370	31,231	55,958	1,673	2,153	141	1,308	18,323	-	113,157
Accumulated depreciation losses	-	138	-	-	-	-	-	-	-	138
Depreciation charge for the year	2,370	31,369	55,958	1,673	2,153	141	1,308	18,323	-	113,295
Attributable to discontinued operation (Note 11)	638	4,177	6,325	338	341	-	194	5,270	-	17,283
Write-offs	(2,602)	(20,865)	-	(193)	(1,439)	(141)	(547)	-	-	(25,787)
Disposals	(132)	(1,901)	(8)	(344)	-	-	(955)	-	-	(3,340)
Exchange differences	-	(1,145)	-	(3)	-	-	-	(636)	-	(1,784)
At 30 June 2012	274	11,635	62,275	1,472	1,055	-	-	22,957	-	99,668

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13. Property, plant and equipment (contd.)

	Buildings RM'000	Plant and machinery, tools and portable cabin RM'000	Equipment and accessories RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Electrical sub-station RM'000	Renovations RM'000	Land rig RM'000	Capital work- in-progress RM'000	Total RM'000
Analysed as:										
Accumulated depreciation	274	11,497	62,275	1,472	1,055	-	-	22,957	-	99,530
Accumulated impairment losses	-	138	-	-	-	-	-	-	-	138
	274	11,635	62,275	1,472	1,055	-	-	22,957	-	99,668
Net carrying amount At 30 June 2012	2,085	4,700	23,032	945	192	-	-	55,830	-	86,784

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Kejuruteraan Samudra Timur Berhad
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13. Property, plant and equipment (contd.)

As at 30 June 2011	Buildings RM'000	Plant and machinery, tools and portable cabin RM'000	Equipment and accessories RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Electrical sub-station RM'000	Renovations RM'000	Land rigs RM'000	Capital work- in-progress RM'000	Total RM'000
Group										
Cost / Valuation										
At 1 July 2010	5,704	46,068	82,236	2,718	2,849	141	1,618	83,441	780	225,555
Additions	173	1,909	564	665	-	-	31	-	660	4,002
Transfer	780	-	-	-	-	-	-	-	(780)	-
Write-offs	-	-	(38)	(431)	-	-	-	-	-	(469)
Disposals	-	-	(97)	(1)	(35)	-	-	(3,108)	-	(3,241)
Exchange differences	-	-	-	(2)	-	-	-	-	-	(2)
At 30 June 2011	6,657	47,977	82,665	2,949	2,814	141	1,649	80,333	660	225,845
Accumulated depreciation and impairment										
At 1 July 2010	1,822	26,786	48,562	1,689	1,787	141	1,045	13,486	-	95,318
Accumulated depreciation losses	-	138	-	-	-	-	-	-	-	138
Depreciation charge for the year	1,822	26,924	48,562	1,689	1,787	141	1,045	13,486	-	95,456
Write-offs	548	4,445	7,504	357	401	-	263	5,378	-	18,896
Disposals	-	-	(27)	(371)	-	-	-	-	-	(398)
Exchange differences	-	-	(81)	(1)	(35)	-	-	(541)	-	(658)
At 30 June 2011	2,370	31,369	55,958	1,673	2,153	141	1,308	18,323	-	113,295

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

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13. Property, plant and equipment (contd.)

	Buildings RM'000	Plant and machinery, tools and portable cabin RM'000	Equipment and accessories RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Electrical sub-station RM'000	Renovations RM'000	Land rig RM'000	in-progress RM'000	Capital work- RM'000	Total RM'000
Group (contd.)											
Analysed as:											
Accumulated depreciation	2,370	31,231	55,958	1,673	2,153	141	1,308	18,323	-	-	113,157
Accumulated impairment losses	-	138	-	-	-	-	-	-	-	-	138
	2,370	31,369	55,958	1,673	2,153	141	1,308	18,323	-	-	113,295
Net carrying amount	4,287	16,608	26,707	1,276	661	-	341	62,010	660		112,550
At 30 June 2011											

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**Kejuruteraan Samudra Timur Berhad
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13. Property, plant and equipment (contd.)

As at 30 June 2012	Buildings RM'000	Equipment and accessories RM'000	Tools and portable cabin RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
Company						
Cost/Valuation						
At 1 July 2011	2,360	76,208	178	1,948	926	81,620
Additions	-	2,686	15	133	56	2,890
Write-offs	-	(44)	-	(1)	-	(45)
Disposals	-	-	-	(3)	-	(3)
At 30 June 2012	<u>2,360</u>	<u>78,850</u>	<u>193</u>	<u>2,077</u>	<u>982</u>	<u>84,462</u>
Accumulated depreciation						
At 1 July 2011	226	52,967	111	1,006	692	55,002
Depreciation charge for the year	47	6,325	19	239	148	6,778
Write-offs	-	(8)	-	-	-	(8)
Disposals	-	-	-	(3)	-	(3)
At 30 June 2012	<u>273</u>	<u>59,284</u>	<u>130</u>	<u>1,242</u>	<u>840</u>	<u>61,769</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

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13. Property, plant and equipment (contd.)

As at 30 June 2011	Buildings RM'000	Equipment and accessories RM'000	Tools and portable cabin RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
Company						
Cost/Valuation						
At 1 July 2010	2,360	75,777	177	1,820	926	81,060
Additions	-	565	1	533	-	1,099
Write-offs	-	(37)	-	(405)	-	(442)
Disposals	-	(97)	-	-	-	(97)
At 30 June 2011	<u>2,360</u>	<u>76,208</u>	<u>178</u>	<u>1,948</u>	<u>926</u>	<u>81,620</u>
Accumulated depreciation						
At 1 July 2010	179	45,571	90	1,099	545	47,484
Depreciation charge for the year	47	7,504	21	254	147	7,973
Write-offs	-	(27)	-	(347)	-	(374)
Disposals	-	(81)	-	-	-	(81)
At 30 June 2011	<u>226</u>	<u>52,967</u>	<u>111</u>	<u>1,006</u>	<u>692</u>	<u>55,002</u>
Net carrying amount						
At 30 June 2011	<u>2,134</u>	<u>23,241</u>	<u>67</u>	<u>942</u>	<u>234</u>	<u>26,618</u>

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13. Property, plant and equipment (contd.)

Except for certain equipment and accessories which are carried at valuation, all other property, plant and equipment are carried at cost. Analysis of cost and valuation of these equipment are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cost	64,095	61,453	57,638	54,996
Valuation	21,212	21,212	21,212	21,212
	85,307	82,665	78,850	76,208
Less: Accumulated depreciation	(62,275)	(55,958)	(59,284)	(52,967)
	23,032	26,707	19,566	23,241
Representing:				
At cost	23,032	26,090	19,566	22,624
At valuation	-	617	-	617
	23,032	26,707	19,566	23,241

- (a) The above equipment and accessories were revalued on 24 October 2001 by Harper Wira Insurance Surveyors and Adjuster Sdn Bhd an independent professional valuer using the depreciated replacement cost basis.
- (b) The net carrying amount of the equipment and accessories carried at valuation that would otherwise be stated in the financial statements, had the equipment and accessories been carried at cost less accumulated depreciation, would have been RMNil (2011: RMNil).
- (c) Acquisitions of property, plant and equipment during the year were made by way of:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash payment	7,675	4,002	2,839	1,099
Hire purchase	51	-	51	-
	7,726	4,002	2,890	1,099

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13. Property, plant and equipment (contd.)

- (d) Net carrying amounts of property, plant and equipment held under hire purchase arrangements are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Motor vehicles	77	134	77	52
Equipment and accessories	-	10,567	-	10,567
	<u>77</u>	<u>10,701</u>	<u>77</u>	<u>10,619</u>

- (e) Certain property, plant and equipment of the Group and of the Company of net carrying amounts of RM77,000 (2011: RM15,310,000) and RM77,000 (2011: RM10,619,000) respectively, are pledged for borrowings as disclosed in Note 24.

14. Investments in subsidiaries

	Company	
	2012 RM'000	2011 RM'000
Unquoted shares at cost	20,399	16,375
Additions during the year	-	15,100
Less : Accumulated impairment losses	(200)	(218)
	<u>20,199</u>	<u>31,257</u>

In the previous financial year, advances to a subsidiary with a carrying amount of RM15,099,998 were capitalised as part of the Company's investment in subsidiaries.

During the financial year, the Company disposed of the entire 51% equity interest in a subsidiary, SOISB for a total cash consideration of RM14,000,000. The Disposal of Sobena resulted in a gain on disposal of investment in a subsidiary for the Group and the Company of RM1,055,000 and RM2,843,000 respectively. Further information of the Disposal of Sobena is disclosed in Notes 11 and 35.

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Equity interest held		Principal activities
		2012 %	2011 %	
Samudra Timur Sdn. Bhd.	Malaysia	100	100	Provision of tubular inspection and maintenance services to the oil and gas industry within and outside Malaysia.

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14. Investments in subsidiaries (contd.)

Name of subsidiaries	Country of incorporation	Equity interest held		Principal activities
		2012 %	2011 %	
KST Drilling Technologies Sdn. Bhd.	Malaysia	100	100	Investment holding and provision of land drilling services.
KST Drilling Technologies (M) Ltd.	Republic of Mauritius	100	100	Dormant.
KST Fishing Services Sdn. Bhd.	Malaysia	100	100	Dormant.
Sobena Offshore Inc. Sdn. Bhd.	Malaysia	-	51	Threading of oil country tubular goods such as pipes and couplings for oil and gas industry.
KST International Ltd.	British Virgin Islands	100	100	Dormant.
PT. KST Drilling Technologies Indonesia.	Indonesia	95	95	Provision of land drilling services, tubular handling equipment and running services, tubular inspection and maintenance services within Republic of Indonesia.
Sobena Offshore International Ltd. ^	Hong Kong	-	51	Dormant.
Samudra Oil Services Sdn. Bhd.	Malaysia	100	100	Dormant.

^ The subsidiary has been dissolved during the financial year.

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15. Interests in jointly controlled entities

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
In Malaysia:				
Unquoted shares, at cost	440	440	440	440
Advances to the jointly controlled entities	23,083	23,083	14,058	14,058
	<u>23,523</u>	<u>23,523</u>	<u>14,498</u>	<u>14,498</u>
Share of post-acquisition reserves	(23,523)	(23,523)	-	-
	<u>-</u>	<u>-</u>	<u>14,498</u>	<u>14,498</u>
Less: Accumulated impairment losses	-	-	(14,498)	(14,498)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Details of the jointly controlled entities are as follows:

Name of Jointly Controlled Entity	Country of Incorporation	Equity Interest Held		Principal Activities
		2012 %	2011 %	
KST Gagie Sdn. Bhd. ^ (KSTGSB)	Malaysia	50	50	Provision of oilfield fishing related services. Inactive as at financial year end.
KST Gagie Labuan Ltd. * (KSTGLL)	Malaysia	51	51	Provision of oilfields fishing related services. Inactive as at financial year end.

^ - Pursuant to a Shareholders' Agreement entered into between Gagie Corporation S.A. ("Gagie") and the Company dated 19 December 2005, the control of KSTGSB was joint, as evidenced by inter alia, the quorum required for Board of Directors meetings and shareholders meetings and the requirement of joint bank signatories. The said Shareholders' Agreement had been unilaterally terminated by the Company on 5 April 2007 and Gagie has accepted the Company's "repudiation" of the Shareholders' Agreement. Notwithstanding the above, the parties have agreed to refer matters arising from the repudiation/termination to arbitration and until the resolution of the arbitration, the management of the Company continues to deem the control of KSTGSB as joint.

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15. Interests in jointly controlled entities (contd.)

- * - Notwithstanding KSTGLL is owned 51% by the Company, however, pursuant to the Shareholders' Agreement entered into between Gagie and the Company dated 19 December 2005, the control of KSTGLL was joint, as evidenced by inter alia, the quorum required for Board of Directors meetings and shareholders meetings and the requirement of joint bank signatories. The said Shareholders' Agreement has been unilaterally terminated by the Company on 5 April 2007 and Gagie has accepted the Company's "repudiation" of the Shareholders' Agreement. Notwithstanding the above, the parties have agreed to refer matters arising from the repudiation/termination to arbitration and until the resolution of the arbitration, the management of the Company continues to deem the control of KSTGLL as joint.

The Group has discontinued the oilfield fishing operations in KSTGSB and KSTGLL subsequent to the terminations of the shareholders' agreements on 5 April 2007 due to various disputes. The termination was announced on 6 April 2007 by the Company to Bursa.

The joint venture partner, namely Gagie, has accepted the termination/repudiation of the shareholders' agreements by the Company and both parties have agreed to refer the matters arising from the termination/repudiation to arbitration. Gagie and the Company have on 21 January 2008 formalised the appointment of an arbitrator for the aforesaid dispute whilst preliminary meeting between lawyers of both parties and the arbitrator was held in April 2008. The arbitration hearing exercise which commenced on 19 May 2009 has been completed and is currently pending delivery of arbitration judgement by the arbitrator.

16. Investment securities

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Current				
Held-to-maturity investment				
- 7.63% p.a. subordinated				
bond due 26 January 2012				
(unquoted)	3,000	3,000	3,000	3,000
Less:				
Accumulated impairment loss	(3,000)	(3,000)	(3,000)	(3,000)
Total current investment securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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16. Investment securities (contd.)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Non-current				
Available-for-sale financial assets				
- Equity instruments in malaysia (unquoted)	60	60	-	-
Less:				
Accumulated impairment loss	(25)	(25)	-	-
Total non-current investment securities	<u>35</u>	<u>35</u>	<u>-</u>	<u>-</u>
Total investment securities	<u>35</u>	<u>35</u>	<u>-</u>	<u>-</u>

The Company has subscribed for subordinated bonds amounting to RM3,000,000 (2011: RM3,000,000) in a special purpose entity pertaining to the participation of the Company in a Collateralised Loan Obligations ("CLO") program in which RM30,000,000 term loan, was granted to the Company. The impairment loss on the subordinated bond relates to insufficiency of the Required Liquidity Reserve Account under the CLO program due to delinquency amongst the participants of the CLO program. The subordinated bonds were suspended by the Trustee of the CLO program on maturity in January 2012 without any redemption payment as there was insufficiency of funds under the CLO program to redeem such class of bonds.

17. Intangible asset

	Group	
	2012 RM'000	2011 RM'000
Goodwill		
At beginning of the year	5,242	5,242
Attributable to discontinued operation (Note 11)	(5,242)	-
At end of the year	<u>-</u>	<u>5,242</u>

The Group has on 31 January 2012, entered into a conditional Sale and Purchase of Shares Agreement with Marubeni-Itochu Tubulars Asia Pte Ltd ("MITA") and Hendroff Holdings Sdn. Bhd. ("Hendroff") to dispose to MITA and Hendroff a total of 4,335,000 ordinary shares of RM1.00 each equivalent to 51% of the total issued and paid-up share capital of SOISB for a total cash consideration of RM14,000,000. The disposal of shares was completed on 25 June 2012.

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**Kejuruteraan Samudra Timur Berhad
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17. Intangible asset (contd.)

Impairment tests for goodwill

(a) Allocation of goodwill

The goodwill was in relation to the acquisition of a subsidiary, SOISB, in financial year 2005 which was also the Group's cash generating unit for the goodwill.

(b) Key assumptions used in value-in-use calculations

The recoverability of investment in a CGU was assessed based on the net present value of its future cash flows. In the calculation of net present value, the method on value-in-use was adopted in which the expected future cash flows were discounted to the net present value with the application of appropriate discounting rate. The key assumptions for the assessment of future cash flows, the discounting rate used in the calculation of the net present value and the basis of adoption were as follows:

	2012	2011
	%	%
Gross margin	-	17.7
Growth rate	-	23.2
Discount rate	-	8.0

(i) Gross margin

The basis used to determine the value assigned to the budgeted gross margin was the average gross margin achieved in the year immediately before the budgeted year adjusted for market and economic conditions and expected efficiency improvements.

(ii) Growth rate

The growth rate used was based on the expected level of activity in the oil and gas industry which was consistent with the average growth rate for similar industry.

(iii) Discount rate

Discount rates used were pre-tax and reflect the specific risks relating to the relevant CGU, which approximate the CGU's cost of funds.

(c) Sensitivity to changes in assumptions

The management believed, in the previous financial year that any reasonably possible changes in the above key assumptions applied will not cause the carrying values of the unit to materially exceed its recoverable amounts.

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18. Deferred tax

Deferred income tax as at 30 June relates to the following:

Group	At 1 July 2011 RM'000	Recognised in profit or loss RM'000	At 30 June 2011 RM'000	Recognised in profit or loss RM'000	Disposal of a subsidiary RM'000	At 30 June 2012 RM'000
Deferred tax liabilities:						
Property, plant and equipment	(5,255)	485	(4,770)	244	1,068	(3,458)
Deferred tax assets:						
Provisions	119	(119)	-	-	-	-
Reinvestment allowances	1,378	44	1,422	-	(1,422)	-
Unabsorbed capital allowances	-	246	246	-	(246)	-
	1,497	171	1,668	-	(1,668)	-
	(3,758)	656	(3,102)	244	(600)	(3,458)
Company						
Deferred tax liabilities:						
Property, plant and equipment	(3,930)	228	(3,702)	449	-	(3,253)

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18. Deferred tax (contd.)

Presented after appropriate offsetting as follows:

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	-	600	-	-
Deferred tax liabilities	(3,458)	(3,702)	(3,253)	(3,702)
	<u>(3,458)</u>	<u>(3,102)</u>	<u>(3,253)</u>	<u>(3,702)</u>

19. Inventories

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Consumables and spares	4,335	5,074	3,331	2,652
Less: Provision for slow moving inventories	(311)	(311)	(311)	(311)
	<u>4,024</u>	<u>4,763</u>	<u>3,020</u>	<u>2,341</u>

20. Trade and other receivables

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Current				
Trade receivables				
Third parties	28,192	18,318	15,223	10,023
Amount due from subsidiaries	-	-	349	301
	<u>28,192</u>	<u>18,318</u>	<u>15,572</u>	<u>10,324</u>
Less: Allowance for impairment				
Third parties	(166)	-	-	-
Trade receivables, net	<u>28,026</u>	<u>18,318</u>	<u>15,572</u>	<u>10,324</u>

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20. Trade and other receivables (contd.)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Other receivables				
Amount due from subsidiaries	-	-	66,236	58,882
Other receivables	3,052	4,254	12	15
Deposits	253	613	151	149
	<u>3,305</u>	<u>4,867</u>	<u>66,399</u>	<u>59,046</u>
Less: Allowance for impairment				
Amount due from subsidiaries	-	-	(15,528)	(15,591)
	<u>3,305</u>	<u>4,867</u>	<u>50,871</u>	<u>43,455</u>
	<u>31,331</u>	<u>23,185</u>	<u>66,443</u>	<u>53,779</u>
Total trade and other receivables	31,331	23,185	66,443	53,779
Add: Cash and bank balances (Note 22)	1,713	2,365	835	658
Total loans and receivables	<u>33,044</u>	<u>25,550</u>	<u>67,278</u>	<u>54,437</u>

(a) Trade receivables

Trade receivables are non-interest bearing and are generally 60 days (2011: 60 days) term.

The Group has significant concentration of credit risks in the form of amounts owing from 6 debtors (2011: 7 debtors) representing approximately 71% (2011: 61%) of the total trade receivables.

Ageing analysis of trade receivables

Group	2012 RM'000	2011 RM'000
Neither past due nor impaired	16,896	14,650
1 to 30 days past due not impaired	2,579	2,869
31 to 60 days past due not impaired	1,232	190
61 to 90 days past due not impaired	813	133
91 to 120 days past due not impaired	259	434
More than 121 days past due not impaired	6,247	42
	<u>11,130</u>	<u>3,668</u>
Impaired	166	-
	<u>28,192</u>	<u>18,318</u>

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**Kejuruteraan Samudra Timur Berhad
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20. Trade and other receivables (contd.)

(a) Trade receivables (contd.)

Ageing analysis of trade receivables (contd.)

Company	2012 RM'000	2011 RM'000
Neither past due nor impaired	10,752	8,979
1 to 30 days past due not impaired	1,896	547
31 to 60 days past due not impaired	1,121	46
61 to 90 days past due not impaired	789	92
91 to 120 days past due not impaired	176	386
More than 121 days past due not impaired	838	274
	<u>4,820</u>	<u>1,345</u>
	<u>15,572</u>	<u>10,324</u>

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

Receivables that are past due but not impaired

The Group and the Company have trade receivables amounting to RM11,130,000 and RM4,820,000 respectively (2011: RM3,668,000 and RM1,345,000) that are past due at the reporting date but not impaired. The Group has a long relationship with these customers and based on historical payments trend, the Group believes that these amounts are recoverable and that no impairment allowance is necessary.

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Individually impaired	
	2012 RM'000	2011 RM'000
Trade receivables - nominal amount	166	-
Less: Allowance for impairment	(166)	-
	<u>-</u>	<u>-</u>

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

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20. Trade and other receivables (contd.)

(a) Trade receivables (contd.)

Receivables that are impaired (contd.)

Movement in allowance account:

	Group	
	2012 RM'000	2011 RM'000
At 1 July	-	-
Charge for the year (Note 9)	160	-
Exchange differences	6	-
At 30 June	166	-

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

(b) Other receivables

The Group and the Company has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

(c) Amount due from subsidiaries

- Amounts due from subsidiaries are unsecured, non-interest bearing and are repayable upon demand.
- At the reporting date, the Company has made allowance for impairment for the amount due from subsidiaries, of RM15,528,000 (2011: RM15,591,000), which have been suffering from financial losses for the current and past two financial years with remote chances of immediate revival of their operations that could generate surplus cash flow for repayment of such amount.

Movement in allowance accounts:

	Company	
	2012 RM'000	2011 RM'000
At 1 July	15,591	15,552
(Reversal of)/impairment loss for the year (Note 9)	(63)	39
At 30 June	15,528	15,591

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**Kejuruteraan Samudra Timur Berhad
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20. Trade and other receivables (contd.)

(d) Amount due from a corporate shareholder of a former subsidiary

Included in trade and other receivables of the Group in the previous financial year were amounts owing by a corporate shareholder of a former subsidiary as follows:

	Trade receivables		Other receivables	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Due from a corporate shareholder of a former subsidiary	-	2,365	-	511

In the current financial year, there are no amount owing by a corporate shareholder of a subsidiary as the subsidiary has been disposed of and deconsolidated as at 30 June 2012.

21. Other current asset

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Prepaid operating expenses	2,168	1,111	1,712	389

22. Cash and bank balances

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cash on hand and at banks	1,356	2,037	511	363
Deposits with licensed banks	357	328	324	295
Cash and bank balances	1,713	2,365	835	658

Deposits with licensed banks are pledged to banks for credit facilities granted to the Group and the Company as disclosed in Note 24.

The interest rates of deposits with licensed banks at the reporting date were as follows:

	2012	2011
	%	%
Deposits with licensed banks	2.72	2.52

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**Kejuruteraan Samudra Timur Berhad
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22. Cash and bank balances (contd.)

The average maturity of deposits with licensed banks as at the end of the financial period were as follows:

	2012 Days	2011 Days
Deposits with licensed banks	<u>27</u>	<u>62</u>

For the purpose of the consolidated statement of cash flow, cash and cash equivalents comprise the following at the reporting date:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash and bank balances	1,713	2,365	835	658
Bank overdrafts (Note 24)	-	(7,973)	-	(7,589)
Cash and cash equivalents	<u>1,713</u>	<u>(5,608)</u>	<u>835</u>	<u>(6,931)</u>

23. Non-current asset held for sale

	Group	
	2012 RM'000	2011 RM'000
At beginning of the year	-	1,867
Disposed during the year	-	(1,867)
At end of the year	<u>-</u>	<u>-</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**Kejuruteraan Samudra Timur Berhad
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24. Loans and borrowings

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
Unsecured:				
Bank overdrafts (Note 22)	-	7,973	-	7,589
Term loans	20,000	32,416	20,000	30,235
	<u>20,000</u>	<u>40,389</u>	<u>20,000</u>	<u>37,824</u>
Secured:				
Revolving credits	15,919	15,076	-	-
Hire purchase and finance lease (Note 29)	29	564	29	498
Term loans	7,337	6,322	-	-
	<u>23,285</u>	<u>21,962</u>	<u>29</u>	<u>498</u>
	<u>43,285</u>	<u>62,351</u>	<u>20,029</u>	<u>38,322</u>
Non-current				
Secured:				
Hire purchase and finance lease (Note 29)	38	146	38	59
Term loans	20,333	26,119	-	-
	<u>20,371</u>	<u>26,265</u>	<u>38</u>	<u>59</u>
Total loans and borrowings				
Unsecured:				
Bank overdrafts (Note 22)	-	7,973	-	7,589
Term loans	20,000	32,416	20,000	30,235
	<u>20,000</u>	<u>40,389</u>	<u>20,000</u>	<u>37,824</u>
Secured:				
Revolving credits	15,919	15,076	-	-
Hire purchase and finance lease (Note 29)	67	710	67	557
Term loans	27,670	32,441	-	-
	<u>43,656</u>	<u>48,227</u>	<u>67</u>	<u>557</u>
	<u>63,656</u>	<u>88,616</u>	<u>20,067</u>	<u>38,381</u>

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
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24. Loans and borrowings (contd.)

The remaining maturities of the loans and borrowings as at 30 June 2012 are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
On demand or within one year	43,285	62,351	20,029	38,322
More than 1 year and less than 2 years	7,196	6,904	9	59
More than 2 year and less than 5 years	13,175	19,361	29	-
	<u>63,656</u>	<u>88,616</u>	<u>20,067</u>	<u>38,381</u>

The effective interest rates at the reporting date for borrowings other than hire purchase and finance lease, were as follows:

Maturity	Group		Company		
	2012 %	2011 %	2012 %	2011 %	
Bank overdrafts	On demand	8.35	8.10 - 8.35	8.35	8.35
Revolving credits	On demand	3.15	3.15	-	-
Term loans	2012 - 2016	3.15 - 7.63	3.15 - 8.10	7.63	3.22 - 7.63

The Group's bank borrowings for the current financial year are secured by:

- (i) a negative pledge over the present and future fixed and floating assets of the Company;
- (ii) assignment of proceeds from contracts of a subsidiary; and
- (iii) corporate guarantee from the Company.

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**Kejuruteraan Samudra Timur Berhad
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25. Trade and other payables

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
Trade payables				
Third parties	13,796	10,458	8,049	2,548
Amount due to subsidiaries	-	-	2,566	1,870
	<u>13,796</u>	<u>10,458</u>	<u>10,615</u>	<u>4,418</u>
Other payables				
Other payables	3,271	4,645	765	343
Accruals	6,582	5,812	6,835	6,342
Provision	2,765	3,809	2,765	3,809
Deposit	2,496	-	-	-
Due to a director	3,151	-	2,322	-
Amount due to subsidiaries	-	-	8,162	9,245
	<u>18,265</u>	<u>14,266</u>	<u>20,849</u>	<u>19,739</u>
	<u>32,061</u>	<u>24,724</u>	<u>31,464</u>	<u>24,157</u>
Total trade and other payables	32,061	24,724	31,464	24,157
Add: Loans and borrowings (Note 24)	63,656	88,616	20,067	38,381
Total financial liabilities carried at amortised cost	<u>95,717</u>	<u>113,340</u>	<u>51,531</u>	<u>62,538</u>

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group and the Company range from 30 to 90 days terms (2011: 30 to 90 days).

The amount due to a director is principally relating to advances made by the director which were unsecured and bear interest at prevailing bank overdraft's rate per annum. This amount includes interest payable of the Group and the Company amount to RM195,000 and RM152,000 respectively (2011: RMNil and RMNil respectively).

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25. Trade and other payables (contd.)

Included in trade and other payables of the Group and of the Company are amounts owing to companies in which certain directors have interest and a corporate shareholder of a subsidiary as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Trade payables				
Companies in which certain directors have interest	710	601	272	255
Corporate shareholder of a former subsidiary	-	390	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Other payables				
Companies in which certain directors have interest	247	184	229	109
	<hr/>	<hr/>	<hr/>	<hr/>

The provision relates to the corporate guarantee for credit facilities of a jointly controlled entity. Movement of the provision is as follows:

	Group/Company RM'000
At 1 July 2012	3,809
Payments made during the year	(1,044)
At 30 June 2012	<hr/> 2,765
At 1 July 2010	3,867
Payments made during the year	(58)
At 30 June 2011	<hr/> 3,809

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26. Share capital and share premium

	Group and Company			
	Number of ordinary share of RM0.30 each	----- Amount -----		
	Share capital (Issued and fully paid) '000	Share capital (Issued and fully paid) RM'000	Share premium RM'000	Total share capital and share premium RM'000
At 1 July 2010	106,480	31,944	9,282	41,226
Ordinary share issues	36,547	10,964	-	10,964
Share issuance expense	-	-	(870)	(870)
At 30 June 2011/30 June 2012	<u>143,027</u>	<u>42,908</u>	<u>8,412</u>	<u>51,320</u>
	Number of ordinary shares of RM0.30 each	----- Amount -----		
	2012 '000	2011 '000	2012 RM'000	2011 RM'000
At beginning/end of the year	<u>300,000</u>	<u>300,000</u>	<u>90,000</u>	<u>90,000</u>

a) Share capital

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

b) Share premium

This represents premium arising from issues of shares, net of its related expenses. This reserve is restricted in use but can be utilised for bonus issue of shares.

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27. Other reserves

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Revaluation reserve	4,469	4,469	4,469	4,469
Foreign exchange reserve	(668)	711	-	-
	<u>3,801</u>	<u>5,180</u>	<u>4,469</u>	<u>4,469</u>

Revaluation reserve

This reserve comprise cumulative surplus, net of any deferred tax effect, arising from the revaluation of property, plant and equipment above their costs.

Foreign exchange reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

28. Related party disclosures

	Company	
	2012 RM'000	2011 RM'000
(a) Transactions within the Group		
Rendering of services from subsidiaries	696	418
Rental receivable from subsidiaries	336	336
Rendering of services to subsidiaries	(820)	(68)
	<u> </u>	<u> </u>

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28. Related party disclosures (contd.)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
(b) Transactions with other related parties				
Transactions with companies in which certain directors have interest:-				
- Purchase of air tickets	768	554	692	390
- IT related services	120	141	120	141
- Transportation, freight and handling services	1,353	1,150	1,224	593
Transactions between a former subsidiary with its corporate shareholder :				
- Services rendered	22,524	17,812	-	-
- Purchase of material	2,601	1,160	-	-
- Storage rental charges	939	1,691	-	-
Interest payable to a director, Dato' Chee Peck Kiat @ Chee Peck Jan	195	13	151	13
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
(c) Compensation of key management personnel				
Salaries, fees and bonuses	4,977	4,594	2,240	2,245
Define contribution plans	593	524	368	315
Other allowances	312	178	220	94
	5,882	5,296	2,828	2,654

Information regarding the outstanding balances arising from related party transactions as at 30 June 2012 are disclosed in Note 20 and Note 25.

The compensation of key management personnel includes executive directors' remuneration as described in Note 9(b).

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29. Commitments

(a) Commitments

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Approved and contracted for:				
- Property, plant and equipment	3,113	526	3,113	210

(b) Operating lease arrangements

The Group and the Company has entered into non-cancellable operating lease agreements for office premises. These leases have an average life of 3 years and 4 years respectively with renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the balance sheet date but not recognised as liabilities are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Future minimum rental payments:				
Not later than 1 year	1,275	3,102	750	1,017
Later than 1 year and not later than 2 years	215	1,512	-	418
Later than 2 years and not later than 3 years	-	215	-	-
	<u>1,490</u>	<u>4,829</u>	<u>750</u>	<u>1,435</u>

(c) Hire purchase and finance lease payables

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Minimum lease payments:				
Not later than 1 year	30	593	30	522
Later than 1 year and not later than 2 years	11	126	11	60
Later than 2 years and not later than 5 years	33	24	33	-
	<u>74</u>	<u>743</u>	<u>74</u>	<u>582</u>
Less:				
Future finance charges	(7)	(33)	(7)	(25)
	<u>67</u>	<u>710</u>	<u>67</u>	<u>557</u>
	82			

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

29. Commitments (contd.)

(c) Hire purchase and finance lease payables (contd.)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Present value of finance lease liabilities:				
Not later than 1 year	29	564	29	498
Later than 1 year and not later than 2 years	9	122	9	59
Later than 2 years and not later than 5 years	29	24	29	-
	<u>67</u>	<u>710</u>	<u>67</u>	<u>557</u>
Analysed as:				
Due within 12 months	29	564	29	498
Due after 12 months	38	146	38	59
	<u>67</u>	<u>710</u>	<u>67</u>	<u>557</u>

The hire purchase facilities are bearing interest charges ranging between 2.2% and 3.1% (2011: 2.4% and 4.3%) per annum.

30. Contingent liabilities

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Unsecured:				
Bank guarantees in favour of third parties	<u>3,819</u>	<u>3,997</u>	<u>3,765</u>	<u>3,676</u>

The bank guarantees in favour of third parties of the Group are mainly related to performance guarantees for oil and gas support services undertaken by the Group.

Information pertaining to corporate guarantee given to financial institutions for credit facilities granted to jointly controlled entities are disclosed in Note 3.2(a) and Note 25.

There is no significant material litigation against the Group except as disclosed in Note 3.2(b) and Note 15.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
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31. Fair value of financial instruments

A. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

	Note	Group 2012		Company 2012	
		RM'000 Carrying amount	RM'000 Fair value	RM'000 Carrying amount	RM'000 Fair value
Financial assets:					
Investment securities (non-current)					
- unquoted equity instruments, at cost	16	35	*	-	-
Financial liabilities:					
Loans and borrowings (non-current)					
- Hire purchase and finance lease	29	38	36	38	36

The carrying amount of other financial assets and financial liabilities as at 30 June 2012 are at reasonable approximation of fair value.

	Note	Group 2011		Company 2011	
		RM'000 Carrying amount	RM'000 Fair value	RM'000 Carrying amount	RM'000 Fair value
Financial assets:					
Investment securities (non-current)					
- unquoted equity instruments, at cost	16	35	*	-	-
Financial liabilities:					
Loans and borrowings (non-current)					
- Hire purchase and finance lease	29	146	143	59	59

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

31. Fair value of financial instruments (contd.)

A. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value (contd.)

* Investment in equity instruments and subordinated bonds carried at cost (Note 16)

Fair value information has not been disclosed for the Group's investments in equity instruments and subordinated bonds that are carried at cost because fair value cannot be measured reliably. The Group does not intend to dispose of its investment in equity instruments in the foreseeable future while its investment in subordinated bonds were suspended by the Trustee of the CLO program on maturity without any redemption payment as there was insufficiency of funds under the CLO program to redeem such class of bonds.

B. Determination of fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Trade and other receivables	20
Trade and other payables	25
Loans and borrowings (current)	24
Loans and borrowings (non-current)	
- floating rate term loans 3.15% to 7.63%	24

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of the current portion of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

The fair values of current loans and borrowings are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
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31. Fair value of financial instruments (contd.)

B. Determination of fair value (contd.)

Hire purchase and finance lease obligations

The fair values of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

Unquoted equity instruments

These investments are valued using valuation models which uses both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Unquoted subordinated bonds

Fair value is estimated by using a discounted cash flow model based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity.

Fair value hierarchy

The Group and the Company use the following hierarchy for determining the fair value of all financial instruments carried at fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs that are based on observable market data, either directly or indirectly

Level 3: Inputs that are not based on observable market data

As at the reporting date, the Group and the Company held the following financial assets that are measured at fair value:

	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group				
30 June 2012				
Available-for-sale financial assets				
Equity shares	35	-	-	35

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**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****31. Fair value of financial instruments (contd.)****B. Determination of fair value (contd.)**Fair value hierarchy (contd.)

No transfers between any levels of the fair value hierarchy took place during the year. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

The Group does not hold credit enhancements or collateral to mitigate credit risk. The carrying amount of financial assets therefore represent the potential credit risk.

32. Financial risk management objectives and policies

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Executive Directors and Head of Finance. The audit committee provides independent oversight to the effectiveness of the risk management process.

It is, and has been throughout the current and previous financial year, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company have not entered into any derivative during the financial year.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. Credit risks are controlled by the application of credit approvals, limits and monitoring procedures.

The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. Trade and other receivables are monitored on an ongoing basis via the Group's management reporting procedures. For other financial assets, the Group and the Company minimise credit risk by limiting the Group's associations to business partners with high creditworthiness.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)****32. Financial risk management objectives and policies (contd.)****(a) Credit risk (contd.)**Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position and bank guarantees in favour of third parties of RM3,819,000 and RM3,765,000 respectively (2011: RM3,997,000 and RM3,676,000).

The Company has also provided corporate guarantee to financial institutions for credit facilities granted to subsidiaries of a nominal amount of RM43,727,000 (2011: RM48,520,000).

Credit risk concentration profile

The Group determines concentration of credit risk by performing ongoing credit evaluation of its customers.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments other than as disclosed in Note 20.

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

32. Financial risk management objectives and policies (contd.)

(b) Liquidity risk (contd.)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
Group			
Financial liabilities:			
30 June 2012			
Trade and other payables	32,061	-	32,061
Loans and borrowings	43,405	20,493	63,898
Total undiscounted financial liabilities	<u>75,466</u>	<u>20,493</u>	<u>95,959</u>
At 30 June 2011			
Trade and other payables	24,724	-	24,724
Loans and borrowings	62,380	26,667	89,047
Total undiscounted financial liabilities	<u>87,104</u>	<u>26,667</u>	<u>113,771</u>
Company			
Financial liabilities:			
At 30 June 2012			
Trade and other payables	31,464	-	31,464
Loans and borrowings	20,030	44	20,074
Total undiscounted financial liabilities	<u>51,494</u>	<u>44</u>	<u>51,538</u>
At 30 June 2011			
Trade and other payables	24,157	-	24,157
Loans and borrowings	38,346	127	38,473
Total undiscounted financial liabilities	<u>62,503</u>	<u>127</u>	<u>62,630</u>

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
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32. Financial risk management objectives and policies (contd.)**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 25 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM109,000 lower/higher (2011: RM147,000 lower/higher), arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily United States Dollars (USD). Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

The Group is not engaged in any hedging transaction. The Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the investment is located or by borrowing in currencies that match the future revenue stream to be generated from its investments.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

32. Financial risk management objectives and policies (contd.)

(d) Foreign currency risk (contd.)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit/loss net of tax to a reasonably possible change in the USD exchange rate against the respective functional currencies of the Group entities, with all other variables held constant.

	2012	
	Group RM'000 Profit net of tax	Company RM'000 Profit net of tax
USD/RM - strengthened 3% (2011: 3%)	- 1,167	+14
- weakened 3% (2011: 3%)	+1,167	- 14
	2011	
	Group RM'000 Loss net of tax	Company RM'000 Loss net of tax
USD/RM - strengthened 3% (2010: 3%)	+1,251	- 26
- weakened 3% (2010: 3%)	- 1,251	+26

33. Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 30 June 2012 and 30 June 2011.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
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33. Capital management (contd.)

The Group monitors capital using a gearing ratio, which is loans and borrowings divided by total capital.

	Note	Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Loans and borrowings	24	63,656	88,616	20,067	38,381
Equity attributable to the owners of the parent representing total capital		26,283	26,473	59,104	49,638
Gearing ratio		2.42	3.35	0.34	0.77

34. Segmental information

For management purposes, the Group is organised into business units based on the products and services, and has four reportable operating segments as follows:

- (i) Tubular handling services - provision of tubular handling equipment and running services to the oil and gas industry;
- (ii) Tubular inspection and maintenance services - provision of tubular inspection and maintenance services to the oil and gas industry;
- (iii) Land rig services - provision of land rig and drilling services to the oil and gas industry; and
- (iv) Oil and gas pipes threading services - provision of threading services for Oil Country Tubular Goods ("OCTG") such as pipes and couplings for oil and gas industry. This segment has been classified as a discontinued operation during the financial year (Note 11).

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

The directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

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34. Segmental information (contd.)

(a) Business Segment

	Continuing Operations				Adjustment and Eliminations		Discontinued Operation		Per consolidated financial statements		
	Tubular Handling Services	Tubular Inspection & Maintenance Services	Land Rig Services	Others	2012	2011	Oil and Gas Pipes Threading Services	2012	2011	2012	2011
	2012	2012	2012	2012	2012	2011	2012	2011	2012	2011	2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	60,888	10,408	8,964	-	-	-	28,091	20,661	113,870	66,081	-
External customers	820	68	432	-	(1,517)	(517)	-	17	-	-	-
Inter-segment	61,708	11,105	9,396	-	(1,517)	(517)	28,091	20,678	113,870	66,081	-
Total revenue							85,779	47,420	113,870	66,081	-
							85,779	47,403	113,870	66,081	-
Results	11,671	715	2,777	(13)	-	-	3,571	1,951	11,642	(8,069)	-
Segment profit/(loss)	(2,854)	-	-	(1,764)	(5)	-	(299)	(323)	(4,917)	(5,337)	-
Finance cost	8,817	715	2,777	(13)	(5)	-	3,272	1,628	6,725	(13,406)	-
Loss before tax											
Other information:	9	5	-	-	-	-	-	-	9	9	-
Interest income	6,776	442	359	36	37	-	3,176	3,675	17,283	18,896	-
Depreciation and amortisation	-	-	-	-	-	-	-	-	-	-	-
Other non-cash expenses	-	-	-	-	-	-	-	-	-	-	-
Assets											
Additions to non-current assets	2,890	244	776	-	-	-	4,389	1,484	7,726	4,002	-
Segment assets	114,969	15,303	13,136	235	155	(88,585)	126,271	125,751	126,271	150,939	-
Liabilities											
Segment liabilities	51,534	2,546	1,448	7,061	7,008	(77,572)	100,189	106,913	100,189	117,308	-
Notes	Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements										
A	Inter-segment revenues are eliminated on consolidation. The elimination adjustment for the previous financial year included inter-segment revenue of the discontinued operation.										
B	Other material non-cash expenses consist of the following items as presented in the respective notes to financial statements:										
					2012	2011					
					RM'000	RM'000					
Impairment loss on:											
Held-to-maturity financial asset					-	345					
C	Additions to non-current assets consist of:										
					2012	2011					
					RM'000	RM'000					
Property, plant and equipment					7,726	4,002					
D	The following items are added to/(deducted from) segment assets (as presented in the Adjustment and Eliminations section) to arrive at total assets reported in the consolidated statement of financial position:										
					2012	2011					
					RM'000	RM'000					
Inter-segment assets					(65,701)	(68,585)					

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

Kejuruteraan Samudra Timur Berhad
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34. Segmental information (contd.)

(a) Business Segment (contd.)

Notes	Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements (contd.)	
	2012 RM'000	2011 RM'000
E	The following items are added to/(deducted from) segment liabilities (as presented in the Adjustment and Eliminations section) to arrive at total liabilities reported in the consolidated statement of financial position:	
	3,458	3,702
	1,014	-
	(89,542)	(81,274)
	<u>(85,070)</u>	<u>(77,572)</u>

(b) Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenues		Non-current assets	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Malaysia	97,057	57,576	23,980	48,026
Indonesia	14,483	6,494	62,839	70,401
Singapore	2,330	4,011	-	-
	<u>113,870</u>	<u>68,081</u>	<u>86,819</u>	<u>118,427</u>

Non-current assets information presented above consist of the following items as presented in the consolidated statement of financial position:

	2012 RM'000	2011 RM'000
Property, plant and equipment	86,784	112,550
Intangible asset	-	5,242
Investment securities	35	35
Deferred tax assets	-	600
	<u>86,819</u>	<u>118,427</u>

(c) information on Major External Customers

Contribute equal or > 10% of revenue for each business segment

	Tubular Handling Services		Tubular Inspection and Maintenance Services		Land Rig Services		Oil and Gas Pipes Threading Services	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Single largest customer	42,650	21,953	3,880	1,573	10,950	6,494	22,524	17,813
2nd largest customer	-	4,262	-	1,484	2,837	-	3,989	2,318
3rd largest customer	-	-	-	1,443	-	-	-	-

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**Kejuruteraan Samudra Timur Berhad
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35. Significant events

(a) Deregistration of a subsidiary

The Company has deregistered its 51% owned subsidiary, Sobena Offshore International Limited from the register of Companies Registry of Hong Kong with effect from 12 August 2011, being the date of publication of the notice of deregistration pursuant to Section 291AA(9) of the Companies Ordinance in the Gazette.

(b) Disposal of 51% equity interest in Sobena Offshore Inc Sdn. Bhd. ("Disposal of Sobena")

The Company has on 31 January 2012 entered into a conditional sale and purchase of shares agreement with Marubeni-Itochu Tubulars Asia Pte Ltd and Hendroff Holdings Sdn Bhd to dispose of its 51% equity interest comprising 4,335,000 ordinary shares of RM1.00 each in SOISB for a total cash consideration of RM14,000,000.

The Disposal of Sobena was completed on 25 June 2012. The status of utilisation of proceeds raised from the Disposal of Sobena as at 30 June 2012 is as follows:

	Revised utilisation* RM'000	Utilisation as at 30 June 2012 RM'000	Balance unutilised RM'000
Working capital	1,994	1,994	-
Purchase of equipment and tools	1,907	768	1,139
Estimated expenses to be incurred for the Disposal of Sobena	99	-	99
Settlement of CLO program	10,000	10,000	-
	<u>14,000</u>	<u>12,762</u>	<u>1,238</u>

* As announced to Bursa on 28 June 2012.

(c) Settlement arrangement for RM30 million unsecured fixed term loan facility under Primary Collateralised Loan Obligation Program ("CLO Facility")

On 28 June 2012, the Company announced that the Company had on 28 June 2012 entered into a Settlement Agreement with Malaysian Trustees Berhad and Prima Uno Behad for the purpose of settlement of the CLO Facility, subject to the terms and conditions as stipulated in the Settlement Agreement, including but not limited to the following:-

- (i) the full settlement of the CLO Facility vide payment of a cash settlement of RM23,000,000 subject to (iv);
- (ii) RM10,000,000 of the settlement of the CLO Facility shall be paid on or before 30 June 2012;

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**Kejuruteraan Samudra Timur Berhad
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35. Significant events (contd.)

(c) Settlement arrangement for RM30 million unsecured fixed term loan facility under Primary Collateralised Loan Obligation ("CLO") Program ("CLO Facility") (contd.)

- (iii) RM13,000,000 of the settlement of the CLO Facility shall be paid on or before 31 December 2012; and
- (iv) RM7,000,000 of the remaining principal sum and all other amounts due under the CLO Facility shall be waived provided that (ii) and (iii) are complied, failing which the entire original amount outstanding under the CLO Facility, less any amount paid, shall be immediately due and payables by the Company.

The RM10,000,000 settlement payment mentioned in (ii) above has been made as at end of the current financial period under review. The Company intends to raise funds to enable it to completely fulfil the above mentioned settlement conditions. In connection with the aforesaid, the Company proposes to undertake the Proposals as disclosed in Note 35(d) to the financial statements.

The outstanding balance of the CLO Facility as at 30 June 2012 is RM20,000,000 as disclosed in Note 24.

(d) Proposed fund raising exercise

The Company has on 28 June 2012 announced that the Company proposes to undertake the following:

- (i) Proposed renounceable rights issue of up to 71,513,250 new ordinary shares of RM0.30 each ("Rights Shares") and up to 107,269,875 detachable warrants ("Warrants") in the Company on the basis of two (2) Rights Shares together with three (3) Warrants for every four (4) existing ordinary shares of RM0.30 each in the Company ("KSTB Shares") held by entitled shareholders ("Proposed Rights Issue");
- (ii) Proposed increase in the authorised share capital of the Company from RM90,000,000 comprising 300,000,000 KSTB Shares to RM501,000,000 comprising 1,670,000,000 KSTB Shares ("Proposed Increase in Authorised Share Capital"); and
- (iii) Proposed Amendments to the Memorandum and Articles of Association of the Company ("M&A") to facilitate the Proposed Rights Issue ("Proposed Amendments").

The Proposed Rights Issue, Proposed Increase in Authorised Share Capital and Proposed Amendments would collectively be known as "the Proposals".

The Proposed Rights Issue will be implemented based on a minimum subscription level of 35,756,625 Rights Shares together with 53,634,938 Warrants to raise gross proceeds of approximately RM10,727,000 ("Minimum Subscription Level"). The Minimum Subscription Level was determined based on amongst others, the funding requirement of the Group and the ability of the Group to raise financing.

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

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35. Significant events (contd.)

(d) Proposed fund raising exercise (contd.)

For illustrative purposes, assuming an indicative issue price of RM0.30 per Rights Share, the Proposed Rights Issue is expected to raise an estimated gross proceeds of approximately RM10,727,000 under the Minimum Subscription Level scenario and up to approximately RM21,454,000 in the event of full subscription for the Proposed Rights Issue.

The Proposals are conditional upon approvals being obtained, all of which are still pending, from the following:

- (i) shareholders of the Company for the Proposals, at the forthcoming extraordinary general meeting to be convened;
- (ii) Bank Negara Malaysia, for the issue of the Warrants to non-resident shareholders and/or renounees pursuant to the Proposed Rights Issue, in accordance with the Exchange Control Regulations;
- (iii) Bursa, for the admission of the Warrants and the listing of and quotation for the Rights Shares to be issued pursuant to the Proposed Rights Issue and the new KSTB Shares to be issued upon exercise of the Warrants on Bursa; and
- (iv) any other relevant authority (if required).

AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF KSTB FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)

**Kejuruteraan Samudra Timur Berhad
(Incorporated in Malaysia)**

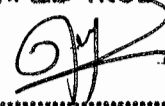
36. Supplementary information - breakdown of accumulated losses into realised and unrealised

The breakdown of the accumulated losses of the Group and of the Company as at 30 June 2012 into realised and unrealised losses is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Total (accumulated losses)/retained earnings of the Company and its subsidiaries				
- Realised	(21,283)	(24,186)	12,599	4,585
- Unrealised	(7,555)	(5,841)	(9,284)	(10,736)
(Accumulated losses)/retained earnings as per financial statements	<u>(28,838)</u>	<u>(30,027)</u>	<u>3,315</u>	<u>(6,151)</u>

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012

CERTIFIED TRUE COPY



CHIN MUN YEE
SECRETARY
MAICSA 7019243

20 NOV 2012



KEJURUTERAAN SAMUDRA TIMUR BERHAD

(Company No. 142241-X)

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

FIRST FINANCIAL QUARTER ENDED 30 SEPTEMBER 2012

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIODS ENDED 30 SEPTEMBER 2012 AND 2011

	Note	First Quarter ended		Cumulative Three Months ended	
		30 September 2012	30 September 2011	30 September 2012	30 September 2011
		Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
<u>Continuing Operations</u>					
Revenue		18,058	29,159	18,058	29,159
Cost of sales		(11,464)	(20,905)	(11,464)	(20,905)
Gross profit		6,594	8,254	6,594	8,254
Other income		95	25	95	25
Administrative expenses		(864)	(3,681)	(864)	(3,681)
Other operating expenses		(1,527)	(1,473)	(1,527)	(1,473)
Finance cost		(978)	(1,062)	(978)	(1,062)
Profit before taxation		3,320	2,063	3,320	2,063
Income tax expense	A12	(1,724)	(1,745)	(1,724)	(1,745)
Profit for the period from continuing operation		1,596	318	1,596	318
<u>Discontinued Operations</u>					
Profit/(Loss) for the period from discontinued operation		-	(666)	-	(666)
Total profit / (loss) for the period		1,596	(348)	1,596	(348)
Attributable to equity holders of the Company:					
- From continuing operations		1,626	350	1,626	350
- From discontinued operation		-	(347)	-	(347)
		1,626	3	1,626	3
Non-controlling interests / Minority interests		(30)	(351)	(30)	(351)
		1,596	(348)	1,596	(348)
Basic earnings/(loss) Per Share attributable to equity holders of the Company (sen)					
- From continuing operations	A13	1.14	0.24	1.14	0.25
- From discontinued operation	A13	-	(0.24)	-	(0.25)
		1.14	0.00	1.14	0.00
Diluted earnings/(loss) Per Share attributable to equity holders of the Company (sen)					
		N/A	N/A	N/A	N/A

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIODS ENDED 30 SEPTEMBER 2012 AND 2011



	First Quarter ended		Cumulative Three Months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Profit /(Loss) for the period	1,596	(348)	1,596	(348)
Other Comprehensive Income:				
Currency translation differences	1,022	(1,245)	1,022	(1,245)
Total other comprehensive income / (loss)	<u>1,022</u>	<u>(1,245)</u>	<u>1,022</u>	<u>(1,245)</u>
Total comprehensive profit / (loss)	<u>2,618</u>	<u>(1,593)</u>	<u>2,618</u>	<u>(1,593)</u>
Attributable to:				
Equity holders of the Company	2,640	(1,235)	2,640	(1,235)
Non-controlling interests / Minority interests	(22)	(358)	(22)	(358)
	<u>2,618</u>	<u>(1,593)</u>	<u>2,618</u>	<u>(1,593)</u>

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER ("SEPT") 2012**



		30 Sept 2012 Unaudited	30 June 2012 Unaudited (restated)	1 July 2011 Unaudited (restated)
	Note	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	A14	84,266	86,784	112,550
Investment in jointly controlled entities		-	-	-
Investment securities		35	35	35
Goodwill on consolidation		-	-	5,242
Deferred tax assets		-	-	600
		<u>84,301</u>	<u>86,819</u>	<u>118,427</u>
Current assets				
Inventories	A15	4,466	4,024	4,763
Trade receivables		30,090	28,026	18,318
Other receivables		5,731	5,473	5,978
Tax recoverable		-	216	1,088
Investment securities		-	-	-
Cash and bank balances (including fixed deposits)	A16	6,794	1,713	2,365
		<u>47,081</u>	<u>39,452</u>	<u>32,512</u>
Assets of disposal subsidiary classified as held for sale		-	-	-
		<u>47,081</u>	<u>39,452</u>	<u>32,512</u>
TOTAL ASSETS		<u>131,382</u>	<u>126,271</u>	<u>150,939</u>
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	A9	42,908	42,908	42,908
Share premium	A9	8,412	8,412	8,412
Other reserves	A9	(365)	(1,379)	-
Accumulated losses		(22,032)	(23,658)	(24,847)
		<u>28,923</u>	<u>26,283</u>	<u>26,473</u>
Non-controlling interests / Minority interests		<u>(223)</u>	<u>(201)</u>	<u>7,158</u>
Total equity		<u>28,700</u>	<u>26,082</u>	<u>33,631</u>
Non-current liabilities				
Loans and borrowings	A18	18,145	20,371	26,265
Deferred tax liabilities		3,458	3,458	3,702
		<u>21,603</u>	<u>23,829</u>	<u>29,967</u>
Current liabilities				
Trade payables		11,142	13,796	10,458
Other payables		18,372	18,265	14,266
Loans and borrowings	A18	49,661	43,285	62,351
Tax payable		1,904	1,014	266
		<u>81,079</u>	<u>76,360</u>	<u>87,341</u>
Liabilities of disposal subsidiary classified as held for sale		-	-	-
		<u>81,079</u>	<u>76,360</u>	<u>87,341</u>
Total liabilities		<u>102,682</u>	<u>100,189</u>	<u>117,308</u>
TOTAL EQUITY AND LIABILITIES		<u>131,382</u>	<u>126,271</u>	<u>150,939</u>
NET ASSETS PER SHARE (SEN)		<u>20.2</u>	<u>18.4</u>	<u>18.5</u>

UNAUDITED CONSOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012**

	Attributable to equity holders of the Company					Total	Minority interest	Total equity
	Non-distributable			Distributable				
	Share Capital	Share Premium	Revaluation Reserve	Exchange Translation Reserve	Accumulated Losses			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2012	42,908	8,412	-	(1,379)	(23,658)	26,283	(201)	26,082
Profit/(Loss) for the period	-	-	-	-	1,626	1,626	(30)	1,596
Other comprehensive income / (loss)	-	-	-	1,014	-	1,014	8	1,022
Total comprehensive profit / (loss) for the period	-	-	-	1,014	1,626	2,640	(22)	2,618
Transactions with owners in their capacity as owners:	-	-	-	-	-	-	-	-
At 30 September 2012 (Unaudited)	42,908	8,412	-	(365)	(22,032)	28,923	(223)	28,700

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2011**

	Attributable to equity holders of the Company					Minority interest	Total equity	
	Non-distributable			Distributable				
	Share Capital RM'000	Share Premium RM'000	Revaluation Reserve RM'000	Exchange Translation Reserve RM'000	Accumulated Losses RM'000			Total RM'000
At 1 July 2011	42,908	8,412	-	-	(24,847)	26,473	7,158	33,631
Profit / (Loss) for the period	-	-	-	-	3	3	(351)	(348)
Other comprehensive income / (loss)	-	-	-	(1,238)	-	(1,238)	(7)	(1,245)
Total comprehensive profit / (loss) for the period	-	-	-	(1,238)	3	(1,235)	(358)	(1,593)
Transactions with owners in their capacity as owners:								
Dissolution of a subsidiary	-	-	-	-	-	-	(1,146)	(1,146)
Total transactions with owners	-	-	-	-	-	-	(1,146)	(1,146)
At 30 September 2011 (Unaudited)	42,908	8,412	-	(1,238)	(24,844)	25,238	5,654	30,892

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 AND 2011**



	3 months ended	
	30 Sept 2012 Unaudited RM'000	30 Sept 2011 Unaudited RM'000
Cash Flows From Operating Activities		
Profit / (Loss) before taxation		
- From continuing operations	3,320	2,063
- From discontinued operations	-	(666)
	<u>3,320</u>	<u>1,397</u>
Adjustments for non-cash and non-operating items:		
- Depreciation of property, plant and equipment	3,280	4,632
- Interest expense	978	1,141
- Unrealised loss / (gain) on foreign exchange	(570)	931
- Others	(13)	760
	<u>6,995</u>	<u>8,861</u>
Operating profit before changes in working capital	6,995	8,861
Changes in working capital:		
- Increase in inventories	(442)	(127)
- Increase in trade and other receivables	(2,322)	(16,442)
- (Decrease)/Increase in trade and other payables	(2,989)	10,390
Interest paid	(530)	(371)
Interest received	11	-
Net change in taxation	(617)	(404)
	<u>106</u>	<u>1,907</u>
Net cash from operating activities	106	1,907
Cash Flows From Investing Activities		
Proceeds from disposal of property, plant and equipment and/or assets held for sale	3	158
Purchase of property, plant and equipment	(771)	(962)
Net cash inflow from disposal of a subsidiary	-	-
	<u>(768)</u>	<u>(804)</u>
Net cash used in investing activities	(768)	(804)
Cash Flows From Financing Activities		
Proceeds from issue of ordinary shares net of share issuance expenses	-	-
Non-controlling interest arising from dissolution of a subsidiary company	-	(1,146)
(Decrease) / Increase in loans and borrowings	(2,182)	1,987
	<u>(2,182)</u>	<u>841</u>
Net cash (used in) / from financing activities	(2,182)	841
Net Change in Cash and Cash Equivalents	(2,844)	1,944
Cash and Cash Equivalents at Beginning of Period	1,713	(5,608)
Effects of exchange rate changes	1,592	(2,175)
Cash and Cash Equivalents at End of Period	461	(5,839)
Analysis of Cash and Cash Equivalents:		
Cash and bank balances	6,348	1,610
Deposits with licensed financial institutions	446	328
Bank overdrafts	(6,333)	(7,777)
	<u>461</u>	<u>(5,839)</u>
Cash and Cash Equivalents	461	(5,839)

UNAUDITED CONSOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)



PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A1 Corporate information

Kejuruteraan Samudra Timur Berhad is a public limited liability company incorporated and doiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad ("Bursa Securities").

These condensed consolidated interim financial statements were approved by the Board of Directors on 19 November 2012.

A2 First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

These condensed consolidated interim financial statements, for the period ended 30 September 2012, have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Securities. These condensed consolidated interim financial statements also comply with IAS 34 Inetrim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 30 June 2012, the Group prepared its financial statements in accordance with Financial Reporting Standards ("FRS").

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS annual financial statements for the year ending 30 June 2013. MFRS 1 First-Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") has been applied.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transaction that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 30 June 2012.

In preparing its opening MFRS Statement of Financial Position as at 1 July 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's financial position, financial performance and cash flows is set out in Note A3 below. These notes include reconciliations of equity and total comprehensive income for comparative periods (if any) and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the statement of cash flows.

A3 Significant accounting policies and application of MFRS 1

The audited financial statements of the Group for the year ended 30 June 2012 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial staements are consistent with those of the audited financial statements for trhe year ended 30 June 2012 except as discussed below:

(a) Business combination

MFRS 1 provides the option to apply MFRS 3 Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combination prior to the date of transition.

Acquisition before date of transition

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisition prior to the date of transition,

- (i) The classification of former business combination under FRS is maintained;
- (ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition): and
- (iii) The carrying amount of goodwill recognised under FRS is not adjusted.

(b) Property, plant and equipment

The Group has previously adopted the transitional provisions available on the first application of the MASB Approved Accounting Standards IAS 16 (Revised) Property, Plant and Equipment which was effective for periods ending on or after 1 September 1998. By virtue of this transitional provision, the Group has recorded certain equipment and accessories at revalued amounts but had not adopted a policy of revaluation and continue to carry the equipment and accessories on the basis of their previous revaluations subject to continuity in its depreciation policy and requirement to write down the assets to their recoverable amounts for impairment adjustments.

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

**PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134****A3 Significant accounting policies and application of MFRS 1 (Cont'd)****(b) Property, plant and equipment (Cont'd)**

Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using the cost model under MFRS 116 Property, Plant and Equipment. At the date of transition to MFRS, the Group elected to:

- regard the revalued amounts of equipment and accessories as at 1 December 2001 as deemed cost at the date of the revaluation as these amounts were broadly comparable to fair value at that date. The revaluation surplus of RM4,469,000 (30 September 2011: RM4,469,000; 30 June 2012: RM4,469,000) was transferred to retained earnings on date of transition to MFRS.

(c) Foreign currency translation reserve

Under FRS, the Group recognised translation differences on foreign operations in a separate component of equity. Cumulative foreign currency translation differences for all foreign operations are deemed to be zero as at the date of transition to MFRS. Accordingly, at date of transition to MFRS, the cumulative foreign translation differences of RM711,000 (30 September 2011: RM711,000; 30 June 2012: RM711,000) were adjusted to retained earnings.

(d) Estimates

The estimates at 1 July 2011 and at 30 June 2012 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present the amounts in accordance with MFRS reflect conditions at 1 July 2011, the date of transition to MFRS and as at 30 June 2012.

The reconciliations of equity for comparative periods and at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:-

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UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)



A3 Significant accounting policies and application of MFRS 1 (Cont'd)

(i) Reconciliations of equity

	Note	FRS as at 1 July 2011 RM'000	Adjustments RM'000	MFRS as at 1 July 2011 RM'000	FRS as at 30 Sept 2011 RM'000	Adjustments RM'000	MFRS as at 30 Sept 2011 RM'000	FRS as at 30 June 2012 RM'000	Adjustments RM'000	MFRS as at 30 June 2012 RM'000
ASSETS										
Non-current assets										
Property, plant and equipment		112,550		112,550	107,952		107,952	86,784		86,784
Investment securities		35		35	35		35	35		35
Goodwill on consolidation		5,242		5,242	5,242		5,242	-		-
Deferred tax assets		600		600	600		600	-		-
		<u>118,427</u>		<u>118,427</u>	<u>113,829</u>		<u>113,829</u>	<u>86,819</u>		<u>86,819</u>
Current assets										
Inventories		4,763		4,763	4,890		4,890	4,024		4,024
Trade receivables		18,318		18,318	34,253		34,253	28,026		28,026
Other receivables		5,978		5,978	6,485		6,485	5,473		5,473
Tax recoverable		1,088		1,088	244		244	216		216
Investment securities		-		-	-		-	-		-
Cash and bank balances		2,365		2,365	1,938		1,938	1,713		1,713
		<u>32,512</u>		<u>32,512</u>	<u>47,810</u>		<u>47,810</u>	<u>39,452</u>		<u>39,452</u>
TOTAL ASSETS		<u>150,939</u>		<u>150,939</u>	<u>161,639</u>		<u>161,639</u>	<u>126,271</u>		<u>126,271</u>

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

A3 Significant accounting policies and application of MFRS 1 (Cont'd)



(i) Reconciliations of equity (Cont'd)

EQUITY AND LIABILITIES

Equity

Share capital	42,908		42,908	42,908		42,908	42,908		42,908
Share premium	8,412		8,412	8,412		8,412	8,412		8,412
Revaluation reserve	4,469	(4,469)	-	4,469	(4,469)	-	4,469	(4,469)	-
Exchange Translation reserve	711	(711)	-	(527)	(711)	(1,238)	(668)	(711)	(1,379)
Accumulated losses	(30,027)	5,180	(24,847)	(30,024)	5,180	(24,844)	(28,838)	5,180	(23,658)
Equity attributable to owners of the parent	26,473		26,473	25,238		25,238	26,283		26,283
Non-controlling interest	7,158		7,158	5,654		5,654	(201)		(201)
	<u>33,631</u>		<u>33,631</u>	<u>30,892</u>		<u>30,892</u>	<u>26,082</u>		<u>26,082</u>

Non-current liabilities

Loans and borrowings	26,265		26,265	26,439		26,439	20,371		20,371
Deferred tax liabilities	3,702		3,702	3,866		3,866	3,458		3,458
	<u>29,967</u>		<u>29,967</u>	<u>30,305</u>		<u>30,305</u>	<u>23,829</u>		<u>23,829</u>

Current liabilities

Trade payables	10,458		10,458	16,660		16,660	13,796		13,796
Other payables	14,266		14,266	19,214		19,214	18,265		18,265
Loans and borrowings	62,351		62,351	63,969		63,969	43,285		43,285
Tax payable	266		266	599		599	1,014		1,014
	<u>87,341</u>		<u>87,341</u>	<u>100,442</u>		<u>100,442</u>	<u>76,360</u>		<u>76,360</u>

Total liabilities

	<u>117,308</u>		<u>117,308</u>	<u>130,747</u>		<u>130,747</u>	<u>100,189</u>		<u>100,189</u>
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TOTAL EQUITY AND LIABILITIES

	<u>150,939</u>		<u>150,939</u>	<u>161,639</u>		<u>161,639</u>	<u>126,271</u>		<u>126,271</u>
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UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)



PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A3 Significant accounting policies and application of MFRS 1 (Cont'd)

	Note	1 July 2011 RM'000	30 Sept 2011 RM'000	30 June 2012 RM'000
<u>Accumulated losses</u>				
The changes which affected the retained earnings are as follows:				
Property, plant and equipment	A3(b)	4,469	4,469	4,469
Foreign currency translation reserve	A3(c)	711	711	711
		<u>5,180</u>	<u>5,180</u>	<u>5,180</u>
<u>Revaluation reserve</u>				
Property, plant and equipment	A3(b)	<u>4,469</u>	<u>4,469</u>	<u>4,469</u>

A4 Comparitive for Unaudited Condensed Consolidated Statements of Comprehensive Income

On 31 January 2012, the Company had entered into a conditional shares sale agreement (“SSA”) with Marubeni-Itochu Tubulars Asia Pte Ltd and Hendroff Holdings Sdn Bhd (“Purchasers”) to dispose of its 51% equity interest comprising 4,335,000 ordinary shares of RM1.00 each in Sobena Inc Offshore Sdn Bhd (“Sobena”) for a total cash consideration of RM14 million (“Sobena Disposal”). The Sobena Disposal was completed on 25 June 2012 and Sobena has ceased to be a subsidiary in the preceding financial quarter.

In accordance with MFRS Non-current Assets Held For Sale and Discontinued Operation, Sobena is classified as Disposal subsidiary held for sale / discontinued operation. The comparative of the Discontinued operation in the corresponding financial quarter and cumulative three month period have been reclassified and presented as follows:

Condensed consolidated statement of comprehensive income:-

(All in RM'000)	Corresponding Quarter ended 30 Sept 2011		
	As previously reported	Disposal Subsidiary	As reclassified
Revenue	34,420	5,261	29,159
Cost of sales	(26,628)	(5,723)	(20,905)
Gross profit	<u>7,792</u>	<u>(462)</u>	<u>8,254</u>
Other income	275	250	25
Administrative expenses	(3,699)	(18)	(3,681)
Other operating expenses	(1,830)	(357)	(1,473)
Finance cost	(1,141)	(79)	(1,062)
Profit / (Loss) before taxation	<u>1,397</u>	<u>(666)</u>	<u>2,063</u>
Income tax expense	(1,745)	-	(1,745)
Profit / (Loss) for the period from continuing operations	<u>(348)</u>	<u>(666)</u>	<u>318</u>
Profit / (Loss) for the period from discontinued operation	<u>-</u>	<u>-</u>	<u>(666)</u>

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)



PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A4 Comparative for Unaudited Condensed Consolidated Statements of Comprehensive Income (Cont'd)

Condensed consolidated statement of comprehensive income (Cont'd):-

(All in RM'000)	Cumulative Three Months ended 30 Sept 2011		
	As previously reported	Disposal Subsidiary	As reclassified
Revenue	34,420	5,261	29,159
Cost of sales	(26,628)	(5,723)	(20,905)
Gross profit	7,792	(462)	8,254
Other income	275	250	25
Administrative expenses	(3,699)	(18)	(3,681)
Other operating expenses	(1,830)	(357)	(1,473)
Finance cost	(1,141)	(79)	(1,062)
Profit / (Loss) before taxation	1,397	(666)	2,063
Income tax expense	(1,745)	-	(1,745)
Profit / (Loss) for the period from continuing operations	(348)	(666)	318
Profit / (Loss) for the period from discontinued operation	-	-	(666)

A5 Changes in Accounting Estimates

During the financial period under review, there was no change in accounting estimates adopted by the Group.

A6 Seasonal or Cyclical Factors

Overall, the business operations of the Group were not affected by any seasonal or cyclical factor.

A7 Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

A8 Changes to Composition of the Group

There was no change in the composition of the Group for the current financial period under review including business combination, acquisition or disposal of subsidiary and long term investments, restructuring and discontinuing operations.

A9 Debt and Equity Securities

There were no issuance and repayment of debts and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period under review.

A10 Segment Information

For the current financial period under review, the Group is organised into business units based on the products and services, and has three reportable operating segments as follows:

- (i) Tubular handling services - provision of tubular handling equipment and running services to the oil and gas industry;
- (ii) Tubular inspection and maintenance services - provision of tubular inspection and maintenance services for oil and gas industry; and
- (iii) Land rig services - provision of land rig and drilling services to the oil and gas industry.

The oil and gas pipes threading services segment which provides threading services for Oil Country Tubular Goods such as pipes and couplings for oil and gas industry has ceased following the completion of the Sobena Disposal in the preceding financial year. This segment has been classified as a discontinued operation for the corresponding financial quarter / period.

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

UNAUDITED CONSOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A10 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2012	Continuing Operations						Discontinued Operation	Consolidated RM'000
	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oilfield fishing & others RM'000	Adjustments and Elimination RM'000	Total RM'000	Oil & gas pipes threading services RM'000	
1) BUSINESS SEGMENT								
Revenue								
- External	14,154	3,310	594	-	-	18,058	-	18,058
- Inter-segment	2	224	-	-	(226)	-	-	-
- Elimination at Discontinued operation	-	-	-	-	-	-	-	-
Total revenue	14,156	3,534	594	-	(226)	18,058	-	18,058
Results								
- Segment results	4,799	753	(1,251)	(3)	-	4,298	-	4,298
- Finance cost	(513)	-	(465)	-	-	(978)	-	(978)
Profit before taxation						3,320	-	3,320
- Taxation						(1,724)	-	(1,724)
Profit after taxation						1,596	-	1,596
Non-controlling interests / Minority interest						30	-	30
Profit for the period attributable to equity holders of the Company						1,626	-	1,626
Assets								
Segment assets	123,912	15,051	78,255	173	(86,034)	131,357	-	131,357
Unallocated corporate assets								25
Consolidated Assets								131,382
Liabilities								
Segment liabilities	57,059	1,607	120,243	7,025	(84,794)	101,140	-	101,140
Unallocated corporate liabilities								1,542
Consolidated Liabilities								102,682

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A10 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2012	Continuing Operations						Discontinued Operation	Consolidated RM'000
	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oilfield fishing & others RM'000	Elimination RM'000	Total RM'000	Oil & gas pipes threading services RM'000	
II) GEOGRAPHICAL SEGMENT								
Revenue from External Customers								
- Malaysia	14,154	3,310	-	-	-	17,464	-	17,464
- Indonesia	-	-	594	-	-	594	-	594
Total revenue	14,154	3,310	594	-	-	18,058	-	18,058
Non-current Assets								
- Malaysia	21,761	1,398	-	5	-	23,164	-	23,164
- Indonesia	-	-	61,137	-	-	61,137	-	61,137
	21,761	1,398	61,137	5	-	84,301	-	84,301

UNAUDITED CONSOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A10 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2011	Continuing Operations						Discontinued Operation	Consolidated RM'000
	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oilfield fishing & others RM'000	Adjustments and Elimination RM'000	Total RM'000	Oil & gas pipes threading services RM'000	
D) BUSINESS SEGMENT								
Revenue								
- External	19,834	2,152	7,173	-	-	29,159	5,261	34,420
- Inter-segment	16	148	-	-	(164)	-	1	1
- Elimination at Discontinued operation	-	-	-	-	-	-	-	(1)
Total revenue	19,850	2,300	7,173	-	(164)	29,159	5,262	34,420
Results								
- Segment results	4,904	236	(2,012)	(3)	-	3,125	(587)	2,538
- Finance cost	(708)	-	(354)	-	-	(1,062)	(79)	(1,141)
Profit/(Loss) before taxation						2,063	(666)	1,397
- Taxation						(1,745)	-	(1,745)
Profit/(Loss) after taxation						318	(666)	(348)
Non-controlling interests / Minority interest						32	319	351
Profit/(Loss) for the period attributable to equity holders of the Company						350	(347)	3
Assets								
Segment assets	128,400	12,872	85,850	208	(87,515)	139,815	21,785	161,600
Unallocated corporate assets								39
Consolidated Assets								161,639
Liabilities								
Segment liabilities	71,490	924	119,276	7,060	(79,589)	119,161	9,981	129,142
Unallocated corporate liabilities								1,605
Consolidated Liabilities								130,747

UNAUDITED CONSOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A10 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2011	Continuing Operations						Discontinued Operation	Consolidated RM'000
	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oilfield fishing & others RM'000	Elimination RM'000	Total RM'000	Oil & gas pipes threading services RM'000	
II) GEOGRAPHICAL SEGMENT								
Revenue from External Customers								
- Malaysia	19,834	2,152	-	-	-	21,986	4,888	26,874
- Indonesia	-	-	7,173	-	-	7,173	-	7,173
- Singapore	-	-	-	-	-	-	373	373
Total revenue	19,834	2,152	7,173	-	-	29,159	5,261	34,420
Non-current Assets								
- Malaysia	30,043	1,521	-	39	-	31,603	14,231	45,834
- Indonesia	-	-	67,995	-	-	67,995	-	67,995
	30,043	1,521	67,995	39	-	99,598	14,231	113,829

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)**PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134****A10 Segment Information (Cont'd)**

For the current financial quarter under review, the Group's Continuing operations registered a total revenue of approximately RM18.06 million a reduction of about 38% when compared to the corresponding financial quarter mainly due to lower turnover and volume of work were reported by both its tubular handling services and land rig services. This has translated into a lower gross profit of about RM6.59 million for the current financial quarter as compared to RM8.25 million achieved in the corresponding financial quarter. The aforesaid reduction effect was offset by the significant decline in administrative expenses which was attributable to the recognition of a net gain on foreign exchange of about RM0.57 million for the current financial quarter as opposed to a net loss on foreign exchange position recorded in the corresponding financial quarter of approximately RM0.96 million. As a result, the Group's Continuing operations managed to register a higher profit before taxation of approximately RM3.32 million, an increase of about 61% when compared to the pre-tax profit of about RM2.06 million reported in the corresponding financial quarter. It recorded a profit attributable to equity holders of the Company of approximately RM1.63 million for the current financial quarter.

For the current financial quarter, the tubular handling services unit recorded an approximately 29% decline in revenue to RM14.15 million compared the turnover of about RM19.83 million reported in the corresponding financial quarter principally due to lower sales was recorded for 3rd party specialist services. Despite of the aforesaid reduction in revenue, it managed to produce an improved gross profit of approximately RM7.10 million as a result of better gross profit margin earned during the current financial quarter. This was however offset by the increase in administrative expenses as the tubular handling services unit was in a net loss on foreign exchange position of about RM0.03 million as opposed to a net gain on foreign exchange of about RM0.26 million recognised in the corresponding financial quarter. Consequently, the tubular handling services unit reported a slightly lower segment profit before interest of approximately RM4.80 million compared to RM4.90 million registered in the corresponding financial quarter.

The inspection and maintenance services recorded a segment profit before interest of approximately RM0.75 million, a growth of about 219% when compared to about RM0.24 million registered in the corresponding financial quarter due principally to higher volume of work/service orders received and completed during the current financial quarter which has observed an increase in revenue by approximately 54% to RM3.31 million when compared to the corresponding financial quarter's revenue achievement of approximately RM2.15 million.

The land rig services unit reported a lower segment loss before interest of RM1.25 million as compared to RM2.01 million incurred in the corresponding financial quarter due mainly to substantially reduced cost of sales and administrative expenses were incurred during the current financial quarter as its rigs were on charter arrangement on project basis with local drilling contractors in Indonesia during the current financial quarter as opposed to self-operate position in the corresponding financial quarter and it recognised a net gain on foreign exchange of approximately RM0.60 million as compared to RM1.32 million loss on foreign exchange taken up in the corresponding financial quarter apart from a loss on disposal of about RM0.76 million.

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UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

**A11 Profit before tax**

Included in the profit before/(loss) before taxation are the following items:-

	First Quarter ended		Cumulative Three Months ended	
	30 September 2012	30 September 2011*	30 September 2012	30 September 2011*
	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
a) Interest income	11	-	11	-
b) Other income (excluding (a) and (g))	84	271	84	271
c) Interest expense	(978)	(1,141)	(978)	(1,141)
d) Depreciation and amortisation of property plant and equipment	(3,280)	(4,632)	(3,280)	(4,632)
e) Amortisation of intangible assets	-	-	-	-
f) Impairment and/or write off of receivables	-	-	-	-
g) Impairment and/or write off of inventories	-	-	-	-
h) Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-	-	-
i) Impairment of assets	-	-	-	-
j) Realised foreign exchange gain/(loss)	(5)	(33)	(5)	(33)
k) Unrealised foreign exchange gain/(loss)	570	(931)	570	(931)
l) Gain/(loss) on derivatives	-	-	-	-
m) Exceptional items	-	-	-	-

* - Includes amount in respect of the discontinued operation

A12 Income tax expense

	First Quarter ended		Cumulative Three Months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Based on financial period's profit				
<u>Continuing operations</u>				
Taxation				
- Current financial period	1,724	1,540	1,724	1,540
- Under/(Over) provision in the previous years	-	41	-	41
Deferred taxation				
- Current financial period	-	-	-	-
- Under/(Over) provision in the previous years	-	164	-	164
	<u>1,724</u>	<u>1,745</u>	<u>1,724</u>	<u>1,745</u>
<u>Discontinued operation</u>				
Taxation	-	-	-	-
Deferred taxation	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total tax expenses for the period	<u>1,724</u>	<u>1,745</u>	<u>1,724</u>	<u>1,745</u>

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)



PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A12 Income tax expense (Cont'd)

Income tax expense is recognised in each financial period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. The effective tax rate for the current financial period was higher than the statutory tax rate principally due to the losses of certain subsidiaries, and certain expenses which are not deductible for tax purposes.

The Group's effective tax rate for the corresponding financial period ended 30 September 2011 was higher than the statutory tax rate mainly due to the losses of certain subsidiaries, and certain expenses which are not deductible for tax purposes.

A13 Earnings/(Loss) Per Share

Basic earning / (loss) per share is calculated by dividing profit / (loss) for the period attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the financial periods as follows:

	First Quarter ended 30 September 2012 Unaudited	30 September 2011 Unaudited	Cumulative Three Months ended 30 September 2012 Unaudited	30 September 2011 Unaudited
Profit / (Loss) for the period attributable to equity holders of the parent (RM'000)				
- From continuing operations	1,626	350	1,626	350
- From discontinued operation	-	(347)	-	(347)
	<u>1,626</u>	<u>3</u>	<u>1,626</u>	<u>3</u>
Weighted average number of ordinary shares in issue ('000)	<u>143,027</u>	<u>143,027</u>	<u>143,027</u>	<u>137,720</u>
Basic earning/(loss) per share attributable to equity holders of the parent (sen)				
- From continuing operations	1.14	0.24	1.14	0.25
- From discontinued operation	-	(0.24)	-	(0.25)
	<u>1.14</u>	<u>0.00</u>	<u>1.14</u>	<u>0.00</u>

The calculations of diluted earnings per share is not applicable as the Company does not have any share option in issue.

A14 Property, Plant and Equipment and Non-Current Assets Held for Sale

During the financial period under review, the Group has acquired / purchased additional plant, equipment, tools and office accessories with a combined cost of approximately RM771,000.

A15 Inventories

There were no write down of inventories during the current financial period under review.

A16 Cash and cash equivalent

	As at 30 Sept 2012 Unaudited RM'000	As at 30 June 2012 Unaudited RM'000	As at 1 July 2011 Unaudited RM'000
Cash and bank balances	6,794	1,713	2,365
Bank overdrafts	(6,333)	-	(7,973)
Total cash and cash equivalent	<u>461</u>	<u>1,713</u>	<u>(5,608)</u>

A17 Fair value hierarchy

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs that are based on observable market data, either directly or indirectly

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134



A17 Fair value hierarchy (Cont'd)

Level 3 - Inputs that are not based on observable market data

As at end of the reporting date, the Group held the following financial assets that are measured at fair value:

	Total RM'000	Level 3 RM'000	Level 3 RM'000	Level 3 RM'000
<u>30 September 2012</u>				
Available-for-sale financial assets				
Equity shares	35	-	-	35
<u>30 June 2012</u>				
Available-for-sale financial assets				
Equity shares	35	-	-	35
<u>1 July 2011</u>				
Available-for-sale financial assets				
Equity shares	35	-	-	35

No transfers between any levels of the fair value hierarchy took place during the current financial period under review and the comparative periods. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

The Group does not hold credit enhancements or collateral to mitigate credit risk. The carrying amount of financial assets therefore present the potential risk.

A18 Loans and borrowings

	As at 30 Sept 2012 Unaudited RM'000	As at 30 June 2012 Unaudited RM'000	As at 1 July 2011 Unaudited RM'000
a) Short term borrowings			
Repayable within twelve months			
- Secured	23,329	23,285	21,962
- Unsecured	26,332	20,000	40,389
	<u>49,661</u>	<u>43,285</u>	<u>62,351</u>
b) Long term borrowings			
Repayable after twelve months			
- Secured	18,145	20,371	26,265
- Unsecured	-	-	-
Portion repayable after one year	<u>18,145</u>	<u>20,371</u>	<u>26,265</u>
United States Dollars (USD'000)	13,584	13,740	14,840
Ringgit Malaysia equivalent (RM'000)	<u>41,414</u>	<u>43,589</u>	<u>44,824</u>

Included in the unsecured short term borrowings above is the RM30.0 million unsecured fixed term loan facility under a Primary Collateralised Loan Obligation programme ("CLO Facility") arranged by a licensed financial institution. The balance of the CLO Facility as at 30 September 2012 was RM20.0 million which is to be settled in accordance with or pursuant to the terms and conditions stipulated in the Settlement Agreement as announced by the Company on 28 June 2012 and as reported in the interim financial report of the preceding financial period.

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134



A19 Contingencies

	As at 30 Sept 2012 Unaudited RM'000	As at 30 June 2012 Unaudited RM'000	As at 1 July 2011 Unaudited RM'000
Unsecured			
Bank guarantees in favour of third parties	4,096	3,819	3,997

The bank guarantees in favour of third parties of the Group are mainly related to performance guarantees for oil and gas support services undertaken by the Group

There is no significant litigation against the Group except for the outstanding arbitration and cases pertaining to the jointly controlled entities as reported in the interim financial report of the preceding financial periods and disclosed in Note B7.

A20 Capital Commitments

	As at 30 Sept 2012 Unaudited RM'000	As at 30 June 2012 Unaudited RM'000	As at 1 July 2011 Unaudited RM'000
Capital expenditure			
Approved and contracted for:			
- Property, plant and equipment	3,166	3,113	526

A21 Related Party Transactions

The following table provides information on the transactions which have been entered into with related parties during the three-month period ended 30 September 2012 and 30 September 2011 as well as the balances with the related parties as at 30 September 2012 and 30 June 2012.

	First Quarter ended 30 September 2012 Unaudited RM'000	30 September 2011 Unaudited RM'000	Cumulative Three Months ended 30 September 2012 Unaudited RM'000	30 September 2011 Unaudited RM'000
Transactions with Director and companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	216	170	216	170
b) IT related services	23	3	23	3
c) Transportation, freight and handling services	215	362	215	362
d) Interest payable to a director	39	-	39	-

Balances with related parties pertaining to the related parties transactions, as at:

	30 Sept 2012 Unaudited RM'000	30 June 2012 Unaudited RM'000
Gem Travel & Tour Sdn Bhd	215	184
IQ Works Sdn Bhd	13	33
Safeguards Oceanic Sdn Bhd	395	426
Airoceanic Express Sdn Bhd	191	283
Safeguards Records management Sdn Bhd *	3	31
Dato' Chee Peck Kiat @ Chee Peck Jan	3,190	3,151

Note * - Subsidiary of Safeguards Corporation Sdn Bhd

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134



A21 Related Party Transactions (Cont'd)

All outstanding balances with these related parties other than the advances made by a director, are unsecured and are to be settled in accordance with credit period normally granted by its creditors/vendors. The advances from a director are unsecured, bear interest at prevailing bank overdraft's rate per annum and had no fixed term of repayment.

A22 Dividend Paid

There were no dividends paid or declared during the financial period under review.

A23 Events Subsequent to the Balance Sheet Date

In the opinion of the Directors, no transaction or event of a material or unusual nature had occurred between 30 September 2012 up to 19 November 2012.

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UNAUDITED CONSOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART B - EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD



B1 Review of Performance

Explanatory comment on the performance of each of the Group's business activities is provided in Note A10.

B2 Comment on material change in profit before taxation

For the current financial quarter under review, the Group's Continuing operations registered a total revenue of approximately RM18.06 million a slight increase of about 3% over the revenue of RM17.57 million reported in the preceding financial quarter. This consistent revenue performance together with improved gross profit margins recorded by its tubular handling services and inspection and maintenance services have enabled the Group's Continuing operations to report higher gross profit of approximately RM6.59 million, a jump of about 54% from RM4.28 million achieved in the preceding financial quarter. This was further boosted by the net gain on foreign exchange of about RM0.57 million which resulted in the Group's Continuing operations to report an increase in segment result of approximately RM2.35 million (or 121%) to about RM4.30 million when compared to the preceding financial quarter. The Group's Continuing operations reported a pre-tax profit of approximately RM3.32 million as compared to RM0.69 million registered in the preceding financial quarter.

B3 Commentary on the prospects

The Group currently has three principal activities namely (i) provision of tubular handling equipment and running services ("Tubular Handling Services"); (ii) provision of OCTG inspection and maintenance services ("Inspection & Maintenance Services"); and (iii) provision of land rig and drilling services ("Land Drilling Services") which are all directly or indirectly in support of upstream oil and gas drilling activities (in particular the exploration, development and workover activities).

The Board is cautiously optimistic on a sustainable improvement in the domestic and global oil and gas exploration and development activities which are directly related to the Group's operations. Such cautious views were taken after considering the on-going European sovereign debt crisis which remains unresolved and signs of slowing growth in China and India, the combination of which poses threats to the world economy.

The Group will continue its efforts to maintain and extend the existing stream of service orders, to maintain existing contract(s) due for extension or renewal and to secure new contracts from its existing clients for those contract(s) or scope of works due for re-tender or bidding and with new players operating in the domestic market and Asia Pacific region which will translate into better utilisation of its existing core revenue equipment and tools as well as its pool of technicians and specialists. Nonetheless, the Group will be cautious in expanding its core revenue equipment and tools to meet any short term service requirement of its existing and prospective clients and expand regionally. More importantly, the Group will accelerate its efforts while exercising due care to consider all options to address the challenges facing Land Drilling Services such as incompatibility of the rigs with the specification requirement of prospective customers which reduces the availability of potential projects, short term nature of work orders or contracts and high gearing level of the rigs assets as well as considering investment options for the Land Drilling Services division including time charter of the land rigs and/or joint venture with oil contractors / operators to enhance utilisation of the land rigs and related assets as well as looking for suitable investors to invest in its Land Drilling Services or to buy out its Land Drilling Services business together with its assets.

B4 Variance from Profit Forecast and Profit Guarantee

This is not applicable to the Group.

B5 Corporate proposals

Proposed Fund Raising Exercise

The Company has on 28 June 2012 announced a proposed rights issue of 71,513,250 new ordinary of RM0.30 each in the Company ("RightsShares") together with up to 107,269,875 detachable warrants ("Warrants") in the Company as well as the proposed increase in authorised share capital and proposed amendments to Memorandum and Articles of Association ("Proposed Increase in Authorised Share Capital and Amendments of M&A") to facilitate the aforesaid proposed rights issue of new ordinary shares.

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART B - EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD



B5 Corporate proposals (Cont'd)

On 24 September 2012, HwangDBS Investment Bank, on behalf of the Board, announced that the Board has, after further deliberation and after taking into consideration improvement in cashflow generated/to be generated from the Company's operations subsequent to the aforesaid announcement on 28 June 2012, aborted the above proposals and proposed to implement the Proposed renounceable rights issue of up to 71,513,250 warrants ("Warrant(s)") at an issue price of RM0.05 for each Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.30 each in the Company ("KSTB Shares") held at an entitlement date to be determined later ("Entitlement Date") ("Proposed Rights Issue of Warrants").

Further to the Proposed Rights Issue of Warrants, the CLO Facility will be settled in the following manner:-

	RM'000
(i) First settlement payment of the CLO Facility made in June 2012	10,000
(ii) Proceeds from the Proposed Rights Issue of Warrants	3,150
(iii) Waiver of remaining principal sum and all other amounts due under the CLO Facility	7,000
(iv) Internally generated funds of Samudra Group / bank borrowings	9,850
	30,000

Based on the issued and paid-up share capital of the Company as at 30 September 2012 of RM42,907,950 comprising 143,026,500 KSTB Shares, the number of Warrants to be issued is 71,513,250. Accordingly, the number of new KSTB Shares to be issued assuming full exercise of the Warrants is 71,513,250. In any event, the actual number of Warrants to be issued will be determined based on the issued and paid-up share capital of KSTB as at the Entitlement Date.

In order to raise the required funds of RM3,575,663, the Company proposes to undertake the Proposed Rights Issue of Warrants on a full subscription basis with undertakings to be procured from its substantial shareholders to subscribe in full for their respective entitlements of the Warrants, as well as the entire balance of the "open portion" of the Warrants not already subscribed for by the entitled shareholders pursuant to the Proposed Right Issue of Warrants in proportion to their respective shareholding in KSTB. As such, the Proposed Rights Issue of Warrants will not be undertaken on a minimum level of subscription basis.

Bank Negara Malaysia had vide its letter dated 15 October 2012, approved the issuance of Warrants to the entitled shareholders who are non-residents pursuant to the Proposed Rights Issue of Warrants, without imposing any conditions while Bursa Securities had, vide its letter dated 29 October 2012, approved in-principle the following:

- (a) admission to the Official List and listing and quotation for 71,513,250 Warrants to be issued pursuant to the Proposed Rights Issue of Warrants; and
- (b) listing of up to 71,513,250 new KSTB Shares to be issued pursuant to the exercise of the Warrants,

subject to the conditions as stated in Section 8 of the circular to shareholders dated 2 November 2012 and as announced to Bursa Securities on 30 October 2012.

The approval of the shareholders of the Company was obtained at the Extraordinary General Meeting held on 19 November 2012.

Formation of joint venture in United Arab Emirates

On 6 September 2012, the Board announced that the Company had, on 5 September 2012 entered into a memorandum of association with Mohamed Abdulla Al-Otaiba Group Est., license no. CN-1000730 of Abu Dhabi, United Arab Emirates ("Otaiba") ("MoA") to form a limited liability company to be named "Emirates Kejuruteraan Samudra Timur Berhad Petroleum Services L.L.C." ("EKSTB") in the Emirates of Abu Dhabi with a capital of Five Hundred Thousand Dirhams (AED500,000) divided into One Hundred (100) shares of Dirhams Five Thousand (AED5,000) each, which would be held by the parties in the following proportion; Otaiba (51%) and KSTB (49%) ("Joint Venture"). On 11 October 2012, the Company announced that it had on 8 October 2012, obtained the Commercial License issued by the Department of Economic Development of Abu Dhabi for the formation of EKSTB.

The principle activities of EKSTB would be the installation and maintenance of natural gas and oil equipment and on-shore and off-shore oil and gas fields services.

UNAUDITED CONDOLIDATED RESULTS OF KSTB FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012 (Cont'd)

PART B - EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD



B6 Utilisation of proceeds from disposal of 51% equity interest in Sobena

The status of utilisation of proceeds raised from the Sobena Disposal as at 30 September 2012 was as follows:

	Note (a) As reported RM'000	Utilisation as at 30 Sept 2012 RM'000	Balance unutilised RM'000
Working capital	1,994	1,994	-
Purchase of equipment and tools	1,907	1,331	576
Estimated expenses to be incurred for the Disposal of Sobena	99	99	-
Settlement of CLO Facility	10,000	10,000	-
	<u>14,000</u>	<u>13,424</u>	<u>576</u>

Note a) Circular to Shareholders dated 9 May 2012 and interim financial report of the Group for the financial year ended 30 June 2012.

B7 Changes in material litigation

There was no material changes to the status of material litigation as disclosed in the interim financial report of the preceding financial period and there was no new material litigation for the current financial period under review.

B8 Dividend payable

Please refer to Note A22.

B9 Disclosure relating to derivatives

The Group did not enter into any derivatives during the financial period under review or there were no outstanding derivatives as at end of the financial period under review.

B10 Disclosure of gains/losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit or loss as at 30 September 2012 and 30 June 2012.

B11 Realised and Unrealised profits / (losses)

	30 Sept 2012 Unaudited RM'000	30 June 2012 Unaudited RM'000
Total retained profits / (accumulated losses) of the Company and its subsidiaries		
- Realised	(15,972)	(16,103)
- Unrealised	(6,060)	(7,555)
Total retained profits / (accumulated losses) as per consolidated accounts	<u>(22,032)</u>	<u>(23,658)</u>

B12 Auditors' Report on Preceding Annual Financial Statements

The Auditors' Report of the financial statements for the financial year ended 30 June 2012 was not qualified

BY ORDER OF THE BOARD

Darmendran Kunaretnam
Executive Director
Kuala Lumpur
19 November 2012

DIRECTORS' REPORT



Date: 29 NOV 2012

Suite A-21-13A, Level 21
Menara UOA Bangsar
No.5, Jalan Bangsar Utama 1
59000 Kuala Lumpur

To: The Shareholders of Kejuruteraan Samudra Timur Berhad

Dear Sir/Madam,

On behalf of the Board of Directors ("Board") of Kejuruteraan Samudra Timur Berhad ("KSTB"), and after making due enquiries, I report that save as disclosed in this Abridged Prospectus, during the period from 30 June 2012 (being the date to which the last audited financial statements of KSTB and its subsidiaries ("KSTB Group") have been made) to the date hereof (being a date not earlier than fourteen (14) days before the date of issue of this Abridged Prospectus):

- (a) the business of the KSTB Group has, in the opinion of the Board, been satisfactorily maintained;
- (b) in the opinion of the Board, no circumstances have arisen since the last audited financial statements of the KSTB Group which have adversely affected the trading or the value of the assets of the KSTB Group;
- (c) the current assets of the KSTB Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in the Abridged Prospectus, there are no contingent liabilities by reason of any guarantee or indemnity given by the KSTB Group;
- (e) there has been no default or any known event since the last audited financial statements of the KSTB Group, that could give rise to a default situation, on payments of either interest and/or principal sums in relation to any borrowings of which the Board is aware of; and
- (f) save as disclosed in the latest audited financial results of the KSTB Group for the financial year ended 30 June 2012, there has been no material change in the published reserves or any unusual factors affecting the profits of the KSTB Group since the last audited financial statements of the KSTB Group.

Yours faithfully

For and on behalf of the Board

KEJURUTERAAN SAMUDRA TIMUR BERHAD

A handwritten signature in black ink, appearing to read 'Darmendran Kunaretnam', written over a horizontal line.

DARMENDRAN KUNARETNAM
EXECUTIVE DIRECTOR

KEJURUTERAAN SAMUDRA TIMUR BERHAD (Co.No: 142241-X)

SUITE A-21-13A, LEVEL 21, MENARA UOA BANGSAR, NO. 5, JALAN BANGSAR UTAMA 1, 59000 KUALA LUMPUR, MALAYSIA.

Tel: +6(03) 2282 4884 Fax: +6(03) 2282 1579

E-mail : kstb@kstb.com.my Website : www.kstb.com.my

1. SHARE CAPITAL

- 1.1 No securities will be allotted and issued on the basis of this Abridged Prospectus later than twelve (12) months after the date of the issue of this Abridged Prospectus.
- 1.2 As at the LPD, save for the provisional allotment of the Warrants under the Rights Issue of Warrants as disclosed in Section 3 of this Abridged Prospectus, no other person has been or is entitled to be given an option to subscribe for any securities, shares or debentures in our Company or any of our subsidiaries.

2. ARTICLES OF ASSOCIATION

- 2.1 There is no shareholding qualification for our Directors.
- 2.2 The provisions in our Company's Articles of Association in dealing with the remuneration of our Directors are as follows:

Article 93

The Directors shall be paid by way of remuneration for their services such fixed sum (if any) as shall from time to time be determined by the Company in General Meeting, and such remuneration shall be divided among the Directors in such proportions and manner as the Directors may determine, Provided Always that:

- (a) *the fees payable to the Directors shall from time to time be determined by a resolution of the Company in General Meeting Provided Always that such fees shall not be increased except pursuant to a resolution passed at a General Meeting, where notice of the proposed increase has been given in the notice convening the General Meeting;*
- (b) *save as provided in Article 93(a) hereof, an executive Director shall, subject to the terms of any agreement (if any) entered into in any particular case, receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the Directors may determine. All remuneration, other than the fees provided for in Article 93(a) hereof, payable to the non-executive Directors shall be determined by a resolution of the Company in General Meeting;*
- (c) *fees payable to non-executive Directors shall be a fixed sum, and not by a commission on or percentage of profits or turnover;*
- (d) *salaries payable to executive Directors may not include a commission on or percentage of turnover; and*
- (e) *any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter.*

Article 94

- (1) *The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending board of Directors' meetings or General Meetings of the Company.*

- (2) *If any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a Member of a committee of Directors, the Company may remunerate the Director so doing either by a fixed sum or otherwise (other than by a sum to include a commission on or percentage of turnover) as may be determined by the Company in General Meeting and such remuneration may be either in addition to or in substitution for his or their share in the remuneration from time to time provided for the Directors. Extra remuneration payable to non-executive Director(s) shall not include a commission or percentage of turnover or profits.*

3. MATERIAL CONTRACTS

Save as disclosed below, our Board has confirmed that neither our Company nor our subsidiaries has entered into any material contracts (not being contracts entered into in the ordinary course of business), during the two (2) years immediately preceding the date of this Abridged Prospectus:

- (i) The Sale and Purchase of Shares Agreement dated 31 January 2012 (“SPA”) entered into between the Company, Marubeni-Itochu Tubulars Asia Pte Ltd (“MITA”) and Hendroff Holdings Sdn Bhd (“Hendroff”) for the disposal of 51% equity interest in Sobena held by the Company to MITA and Hendroff for a total cash consideration of RM14,000,000.00. The SPA has been completed on 25 June 2012 and thereafter, Sobena had ceased to be a subsidiary of the Company;
- (ii) The Settlement Agreement dated 28 June 2012 (“Settlement Agreement”) entered into between the Company, Trustee and Issuer pursuant to the CLO Settlement for the purpose of settling the CLO Facility in accordance with the terms of the Settlement Agreement whereby the parties agreed inter alia, that for the purposes of the CLO Settlement, cash settlement of the 1st CLO Settlement Payment must be made by 30th June 2012 and for the 2nd CLO Settlement Payment by 31st December 2012. The 1st CLO Settlement Payment was made on 28th June 2012 with the proceeds of the Sobena Disposal;
- (iii) The memorandum of association dated 5 September 2012 entered into between the Company and Mohamed Abdulla Al-Otaiba Group Est., license no. CN-1000730 of Abu Dhabi, United Arab Emirates (“Otaiba”) to form a limited liability company to be named “Emirates Kejuruteraan Samudra Timur Berhad Petroleum Services L.L.C.” in the Emirates of Abu Dhabi with a capital of Five Hundred Thousand Dirhams (AED500,000) divided into One Hundred (100) shares of Dirhams Five Thousand (AED5,000) each, which would be held by the parties in the following proportion; Otaiba (51%) and KSTB (49%). KSTB has subscribed for the shares in cash; and
- (iv) The Deed Poll constituting the Warrants dated 26 November 2012.

4. MATERIAL LITIGATION

Save as disclosed below, our Board has confirmed that as at the LPD, neither our Company nor our subsidiaries are engaged in any material litigation either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against our Company or our subsidiaries or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of our Company or our subsidiaries.

On 22 May 2007, we announced that our Company, Dato’ Chee Peck Kiat @ Chee Peck Jan and KSTFS (collectively referred to as the “Defendants”) had on 18 May 2007 been served with a Writ and Statement of Claim filed by Gagie and KSTGSB (collectively referred to as the “Plaintiffs”) in the High Court of Malaya at Kuala Lumpur (Suit No. D8-22-613-2007 or “D8 Suit”) as well as an injunction application by the Plaintiffs against the Defendants. The D8 Suit commenced due to the termination by our Company of the Shareholders’ Agreements dated 19 December 2005 entered into between Gagie and our Company to govern the rights of the parties in relation to KSTGSB and KSTGLL on 5 April 2007. The termination was announced on 6 April 2007 by our Company on Bursa Securities.

The injunction application was heard on various dates and on 1 November 2007, the High Court of Malaya granted various interim injunctions against the Defendants. The grant of the interim injunctions by the High Court of Malaya on 1 November 2007 had the effect of, inter alia, restraining the Defendants, until trial of the action or further order from:

- (i) diverting or attempting to divert to KSTFS or any other companies related to any of the Defendants, all trade receivables due and owing to KSTGSB for services rendered under any existing or prospective business opportunities in relation to oil well fishing operations which belong to the Plaintiffs;
- (ii) dealing with the fishing tools and equipment belonging to KSTGSB and/or KSTGLL procured for the use of the joint venture without the consent of the Plaintiffs or in a manner inconsistent with the rights of the Plaintiffs or amounting to a denial of the Plaintiffs' rights; and
- (iii) publishing any words which reflect adversely on the Plaintiffs' trade and business.

The Plaintiffs were required to deposit a sum of USD1 million into an interest bearing fixed deposit account by way of fortification of the Plaintiff's undertaking as to damages before 1 December 2007. The said sum of USD1 million was not paid.

On 12 June 2007, the Defendants filed an application to strike out the claims made by KSTGSB in the D8 Suit and the order was successfully obtained on 27 February 2008. The Senior Assistant Registrar further ordered KSTGSB (failing which, their lawyers) to pay to the Defendants the costs incurred in this application. The Plaintiffs' appeal against the order was dismissed with costs on 13 May 2008 but the court agreed to vary the order to the extent that the Plaintiffs' lawyers would not be liable for the said costs. The Defendants have not proceeded further with the suit as at the date hereof.

On 12 November 2007, on the advice of the lawyers acting for our Company, KSTGLL filed a suit against Gagie, Mr George Gair Nicoll and Mr Thomas White Doig in the High Court of Malaya at Kuala Lumpur vide Suit No. D7-22-1534-2007 (the "D7 Suit") for alleged wrongful and/or tortious acts in and against KSTGLL including to have them account for the tools and equipment that they have taken from KSTGLL and which are being used in Thailand.

Gagie, Mr George Gair Nicoll and Mr Thomas White Doig (the "D7 Defendants") have through their lawyer filed their defence and their counterclaim against KSTGLL, our Company and KSTFS in respect of the D7 Suit. In their counterclaim, the D7 Defendants have inter alia, sought the delivery of the fishing equipment and tools which they allege belong to them which they claim KSTGLL has wrongly retained or alternatively, judgment in the sum of their current replacement value of USD270,316.66 and general damages to be assessed. At this juncture, KSTGLL and Gagie have reached an understanding whereby Gagie is permitted to take back its fishing tools and equipment in the hands of KSTGLL in exchange for the payment of the sum of USD50,000.00 to KSTGLL for the purchase by Gagie of the fishing tools and equipment which Gagie has removed to Thailand for Gagie's own use. If a formal agreement is executed to this effect, and completed, KSTGLL will no longer seek the return of its fishing tools and equipment in Thailand and Gagie will no longer seek the return of its fishing tools and equipment in Malaysia but all other claims by a party against the other will remain.

Our lawyers have advised us that with respect to our Company's defence to the D8 Suit, our Company has valid defences to the various claims by the Plaintiffs although at this juncture, it is not possible to predict the outcome of a full trial. The lawyers are of the view that even if the Plaintiffs were to succeed in their claims, damages would not be very substantial as what the Defendants did after termination of the Shareholders' Agreements was with a view to mitigate their losses/damages as well as losses/damages suffered by KSTGSB and KSTGLL.

Our Company and Gagie have also agreed to refer the disputes between them to arbitration and currently, the parties have agreed to appoint Tan Sri Dato' Siti Norma Yaakob as the sole arbitrator. Written submissions have already been filed and the matter was heard on 13 July 2010 and 14 July 2010. The parties are now waiting for the arbitrator to deliver her decision.

5. GENERAL

- 5.1 Save for the following Directors, none of the other Directors has any existing or proposed service contracts with our Company or any of our subsidiary companies, excluding contracts expiring or determinable by the employing company without payment or compensation (other than statutory compensation) within one (1) year:
- (i) The letter of appointment dated 2 January 2009 ("Letter of Appointment") issued by the Company to Encik Onn bin Mohd Yusoff in respect of his appointment as an executive director, business development of the Company for a period of two (2) years commencing on 2 January 2009 and subject to the terms and conditions set forth therein which Letter of Appointment has been extended for a further period of one (1) year commencing on 3 January 2012 and expiring on 2 January 2013;
 - (ii) The service agreement dated 24 August 2009 between the Company and Mr. Darmendran Kunaretnam ("Service Agreement") in respect of the appointment of Mr. Darmendran Kunaretnam as an executive director of the Company for a term of two (2) years commencing on 24 August 2009 subject to the terms and conditions of the Service Agreement which Service Agreement has been extended for a further period of 16 months commencing 24 August 2011 and expiring on 31 December 2012; and
 - (iii) The service agreement dated 28 August 2012 between the Company and Mr. Chee Cheng Chun ("2nd Service Agreement") in respect of the appointment of Mr. Chee Cheng Chun as an executive director of the Company for a term of four (4) months commencing 1 September 2012 to 31 December 2012 subject to the terms and conditions of the 2nd Service Agreement.
- 5.2 Save as disclosed in this Abridged Prospectus and to the best of our Directors' knowledge, as at the LPD, in connection with the financial condition and operations of our Group there are no:
- (i) known trends or demands, commitments, events or uncertainties that will or are likely to materially increase or decrease the liquidity of our Group other than in the ordinary course of business;
 - (ii) material commitments for capital expenditure;
 - (iii) unusual, infrequent events or transactions or any significant economic changes which materially affected the amount of reported income from the operations of our Group other than in the ordinary course of business;
 - (iv) known trends or uncertainties which have had, or will have, a material favourable or unfavourable impact on revenues or operating income; and
 - (v) substantial increase in revenue.
- 5.3 Save as disclosed in this Abridged Prospectus, our Board is not aware of any material information including special trade factors or risks which are not mentioned elsewhere and which are unlikely to be known or anticipated by the general public and which could materially affect the profits of our Group.

6. CONSENTS

The written consents of the Principal Adviser, Company Secretaries, Solicitors, Principal Bankers, Share Registrar and Bloomberg Finance L.P. to the inclusion in this Abridged Prospectus of their names in the form and context in which they appear have been given and have not subsequently been withdrawn before the issuance of this Abridged Prospectus.

The written consent of the Auditors/Reporting Accountants to the inclusion in this Abridged Prospectus of its name, Reporting Accountants' letter accompanying the proforma consolidated statements of financial position of KSTB as at 30 June 2012 and the auditors' report accompanying the audited consolidated financial statements of KSTB for the FYE 30 June 2012 in the form and context in which they appear has been given and has not subsequently been withdrawn before the issuance of this Abridged Prospectus.

7. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of our Company at Suite A-21-13A, Level 21, Menara UOA Bangsar, No. 5, Jalan Bangsar Utama 1, 59000 Kuala Lumpur, during normal office hours on Mondays to Fridays (except public holidays) for a period of twelve (12) months commencing from the date of this Abridged Prospectus:

- (i) M&A;
- (ii) the material contracts referred to in Section 3 of this appendix;
- (iii) the relevant cause papers in respect of the material litigation, claims and arbitration as referred to in Section 4 of this appendix;
- (iv) the Directors' service contracts referred to in Section 5.1 of this appendix;
- (v) the letters of consent referred to in Section 6 of this appendix;
- (vi) the proforma consolidated statements of financial position of KSTB as at 30 June 2012 together with the Reporting Accountants' letter thereon;
- (vii) the audited consolidated financial statements of KSTB for the past two (2) FYE 30 June 2011 and 2012;
- (viii) the unaudited consolidated results of our Group for the three (3)-month FPE 30 September 2012;
- (ix) the Directors' report as set out in Appendix VI of this Abridged Prospectus; and
- (x) Undertakings.

8. RESPONSIBILITY STATEMENTS

This Abridged Prospectus together with the accompanying documents have been seen and approved by our Directors and they collectively and individually accept full responsibility for the accuracy of the information given herein and confirm that, after having made all reasonable inquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement in these documents false or misleading.

HwangDBS, being the Principal Adviser of the Rights Issue of Warrants, acknowledges that, based on all available information and to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts concerning the Rights Issue of Warrants.