



# **KEJURUTERAAN SAMUDRA TIMUR BERHAD**

**Interim Financial Report for  
4th Quarter Ended 31<sup>st</sup> December 2008  
Pursuant to FRS 134 and Selected sections of Appendix 9B  
of the Listing Requirements**



**KEJURUTERAAN SAMUDRA TIMUR BERHAD**

(Company No. 142241-X)

(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT  
FOURTH FINANCIAL QUARTER ENDED 31 DECEMBER 2008**

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE FINANCIAL PERIODS ENDED 31 DECEMBER**

	Note	Fourth Quarter ended 31 December		Cumulative Twelve Months ended 31 December	
		2008 Unaudited RM'000	2007 Unaudited RM'000	2008 Unaudited RM'000	2007 Unaudited RM'000
<b>Continuing Operations</b>					
Revenue		16,144	18,923	72,314	107,141
Cost of sales		(12,234)	(11,151)	(50,497)	(64,090)
<b>Gross profit</b>		<u>3,910</u>	<u>7,772</u>	<u>21,817</u>	<u>43,051</u>
Other income		33	172	159	969
Administrative expenses		(547)	(3,784)	(5,158)	(12,496)
Operating expenses		(2,491)	(11,384)	(7,728)	(16,630)
Finance cost		(2,001)	(3,177)	(8,145)	(10,904)
Share of loss in jointly controlled entities		-	(12,533)	-	(15,994)
<b>(Loss) / Profit before taxation</b>		<u>(1,096)</u>	<u>(22,934)</u>	<u>945</u>	<u>(12,004)</u>
Income tax expense	<b>B5</b>	(2,072)	4,496	(3,404)	(1,608)
<b>Loss for the period</b>		<u><u>(3,168)</u></u>	<u><u>(18,438)</u></u>	<u><u>(2,459)</u></u>	<u><u>(13,612)</u></u>
Attributable to:					
Equity holders of the parent		(2,960)	(18,863)	(2,660)	(14,514)
Minority interest		(208)	425	201	902
		<u><u>(3,168)</u></u>	<u><u>(18,438)</u></u>	<u><u>(2,459)</u></u>	<u><u>(13,612)</u></u>
<b>Loss Per Share (sen)</b>	<b>B13</b>				
Basic		<u><u>(2.78)</u></u>	<u><u>(19.49)</u></u>	<u><u>(2.60)</u></u>	<u><u>(14.99)</u></u>
Fully diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

*(The Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.)*

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2008**



		As at 31 December 2008 Unaudited RM'000	As at 31 December 2007 Audited RM'000
<b>ASSETS</b>	<b>Note</b>		
<b>Non-current assets</b>			
Property, plant and equipment	A9	148,413	159,641
Prepaid lease payments		1,474	1,493
Goodwill on consolidation		10,278	10,278
Investment in jointly controlled entities	A15	-	-
Other investment	A16	3,036	3,036
		163,201	174,448
<b>Current assets</b>			
Inventories		3,960	3,611
Trade receivables		19,356	29,961
Other receivables		5,516	7,032
Tax recoverable		376	559
Amount due from jointly controlled entities	A15	-	-
Cash and bank balances (including fixed deposits)		3,734	3,885
		32,942	45,048
<b>TOTAL ASSETS</b>		196,143	219,496
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	A6	53,240	48,400
Redeemable Convertible Preference Share *		-	-
Share premium		9,283	9,283
Other reserves		4,889	3,124
Accumulated losses		(12,596)	(9,936)
		54,816	50,871
<b>Minority interest</b>		1,313	1,055
<b>Total equity</b>		56,129	51,926
<b>Non-current liabilities</b>			
Bank borrowings	B9	57,553	77,447
Deferred tax liabilities		7,561	7,561
		65,114	85,008
<b>Current liabilities</b>			
Trade payables		2,026	1,475
Other payables		23,166	26,807
Amount due to a jointly controlled entity		-	4,063
Bank borrowings	B9	48,724	49,681
Tax payable		984	536
		74,900	82,562
<b>Total liabilities</b>		140,014	167,570
<b>TOTAL EQUITY AND LIABILITIES</b>		196,143	219,496

\* - The Redeemable Convertible Preference Share comprises 1 share of RM1.00 issued by a subsidiary company.

(The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2008**



	Attributable to equity holders of the parent		Distributable		Minority interest	Total equity
	Share Capital	Share Premium	Foreign Exchange Reserve	Retained Earnings/ (Accumulated Losses)		
Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2007</b>						
As previously stated	48,400	9,283	(521)	5,778	67,378	67,567
Effect of adopting FRS 112	-	-	-	244	244	244
<b>At 1 January 2007 (restated)</b>	48,400	9,283	(521)	6,022	67,622	67,811
Effect of reduction in domestic income tax rate	-	30	-	-	30	30
Foreign currency translation	-	-	(823)	-	(823)	(859)
Dividend	-	-	-	(1,413)	(1,413)	(1,413)
Net loss for the year	-	-	-	(14,545)	(14,545)	(13,643)
<b>At 31 December 2007 (Audited)</b>	48,400	9,283	(1,344)	(9,936)	50,871	51,926
<b>At 1 January 2008</b>	48,400	9,283	(1,344)	(9,936)	50,871	51,926
Issue of shares - Placement	4,840	-	-	-	4,840	4,840
Foreign currency translation	-	-	1,765	-	1,765	1,822
Net loss for the period	-	-	-	(2,660)	(2,660)	(2,459)
<b>At 31 December 2008 (Unaudited)</b>	53,240	9,283	421	(12,596)	54,816	56,129

\* - The Redeemable Convertible Preference Share comprises 1 share of RM1.00.

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.)



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2007**

	← Attributable to equity holders of the parent →		Distributable		Minority interest	Total equity
	Share Capital	Share Premium	Share Revaluation Reserve	Retained Earnings		
Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2006 (restated)</b>	44,000	6,065	4,366	6,791	-	61,693
Issue of shares - Placement	4,400	3,218	-	-	-	7,618
Issue of shares by a subsidiary	-	-	-	-	17	17
Effect of reduction in domestic income tax rate	-	-	72	-	-	72
Foreign currency translation	-	-	(993)	-	(6)	(999)
Net loss for the year	-	-	-	(1,013)	178	(835)
<b>At 31 December 2006 (Audited)</b>	48,400	9,283	4,438	5,778	189	67,566
<b>At 1 January 2007</b>	48,400	9,283	4,438	5,778	189	67,566
Foreign currency translation	-	-	(821)	-	(37)	(858)
Effect of reduction in domestic income tax rate	-	-	(30)	-	-	(30)
Net loss for the period	-	-	-	(14,514)	902	(13,612)
Effect of adopting FRS 112	-	-	-	244	-	244
Final dividend paid for financial year ended 31 December 2006	-	-	-	(1,413)	-	(1,413)
<b>At 31 December 2007 (Unaudited)</b>	48,400	9,283	4,408	(9,905)	1,054	51,897

\* - The Redeemable Convertible Preference Share comprises 1 share of RM1.00.

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE FINANCIAL PERIODS ENDED 31 DECEMBER**



	12 months ended 31 December	
	2008	2007
	Unaudited RM'000	Unaudited RM'000
<b>Cash Flows From Operating Activities</b>		
Profit / (Loss) before taxation	945	(12,004)
Adjustments for non-cash and non-operating items:		
- Non-cash items	15,047	31,229
- Investing and financing items	7,674	10,783
<b>Operating profit before changes in working capital</b>	<b>23,666</b>	<b>30,008</b>
Changes in working capital:		
- Changes in current assets	12,016	(7,948)
- Changes in current liabilities	(7,360)	(2,126)
Interest paid	(7,881)	(10,904)
Interest received	137	121
Taxation paid	(2,774)	(1,515)
<b>Net cash generated from operating activities</b>	<b>17,804</b>	<b>7,636</b>
<b>Net cash generated from / (used in) investing activities</b>	<b>110</b>	<b>(15,178)</b>
<b>Net cash (used in) / generated from financing activities</b>	<b>(14,791)</b>	<b>4,108</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>3,123</b>	<b>(3,434)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>(9,334)</b>	<b>(5,042)</b>
Effects of exchange rate changes	(2,054)	(858)
<b>Cash and Cash Equivalents at End of Period</b>	<b>(8,265)</b>	<b>(9,334)</b>
<b>Analysis of Cash and Cash Equivalents:</b>		
Cash and bank balances	3,223	3,382
Deposits with licensed financial institutions	511	503
Bank overdrafts	(11,999)	(13,219)
<b>Cash and Cash Equivalents</b>	<b>(8,265)</b>	<b>(9,334)</b>

*(The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.)*

## PART A - EXPLANATORY NOTES PURSUANT TO FRS 134



### A1 Basis of Preparation

The interim financial statements have been prepared under the historical cost convention except for the revaluation of certain property, plant and equipment.

The interim financial report is unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards ("FRS") 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa").

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2007.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the financial year ended 31 December 2007 except for the adoption of the following new/revised FRSs:

	<b>For financial periods beginning on or after</b>
FRS 107 : Cash Flow Statements	1 July 2007
FRS 111 : Construction Contracts	1 July 2007
FRS 118 : Revenue	1 July 2007
FRS 120 : Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 121 : The effects of changes in Foreign Exchange Rates	1 July 2007
FRS 134 : Interim Financial Reporting	1 July 2007
FRS 137 : Provisions, Contingent Liabilities and Contingent Assets	1 July 2007

The adoption of the above mentioned FRSs do not have any significant financial impact on the results of the Group.

On 14 August 2008, the Company announced that it has changed its financial year end from 31 December to 30 June. With the change the next financial statements of the Company and the Group shall be for an eighteen(18)-month period made up from 1 January 2008 to 30 June 2009.

### A2 Auditors' Report on Preceding Annual Financial Statements

The Auditors' Report of the financial statements for the financial year ended 31 December 2007 was not qualified.

### A3 Seasonal or Cyclical Factors

Overall, the business operations of the Group were not affected by any seasonal or cyclical factor.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)**



**A4 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.

**A5 Changes in Accounting Estimates**

During the financial period under review, there was no change in accounting estimates adopted by the Group.

**A6 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.

[ THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK ]



PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)



A7 Segmental Information

	Tubular Handling Services RM'000	Tubular Inspection and Maintenance Services RM'000	Land Rig Services RM'000	Oil and gas pipes Threading Services RM'000	Oilfields Fishing Services & Others RM'000	Elimination RM'000	Consolidated RM'000
<b>Revenue</b>							
- External	34,415	5,091	7,820	24,988	-	-	72,314
- Inter-segment	397	699	-	-	-	(1,096)	-
<b>Total revenue</b>	<u>34,812</u>	<u>5,790</u>	<u>7,820</u>	<u>24,988</u>	<u>-</u>	<u>(1,096)</u>	<u>72,314</u>
<b>Results</b>							
- Segment results	6,503	1,187	(1,060)	2,651	(191)	-	9,090
- Finance cost	(4,575)	(3)	(2,787)	(780)	-	-	(8,145)
- Share of loss in jointly controlled entities							-
Loss before taxation							945
- Taxation							(3,404)
Loss after taxation							(2,459)
Minority interest							(201)
Loss for the period attributable to equity holders of the Company							<u>(2,660)</u>



PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)

A7 Segmental Information (Cont'd)

	Tubular Handling Services RM'000	Tubular Inspection and Maintenance Services RM'000	Oil and gas pipes Threading Services RM'000	Oilfields Fishing Services RM'000	Elimination RM'000	Consolidated RM'000
<b>UNAUDITED RESULTS FOR</b>						
<b>12-MONTH PERIOD AND</b>						
<b>YEAR-TO-DATE ENDED 31.12.2007</b>						
<b>Revenue</b>						
- External	35,787	5,212	28,229	13,869	-	107,141
- Inter-segment	4,034	891	10,216	-	(15,141)	-
<b>Total revenue</b>	<b>39,821</b>	<b>6,103</b>	<b>38,445</b>	<b>13,869</b>	<b>(15,141)</b>	<b>107,141</b>
<b>Results</b>						
- Segment results	(1,169)	1,102	6,582	277	-	14,894
- Finance cost	(4,530)	(2)	(955)	-	-	(10,904)
- Share of loss in jointly controlled entities						(15,994)
Loss before taxation						(12,004)
- Taxation						(1,608)
Loss after taxation						(13,612)
Minority interest						(902)
Loss for the period attributable to equity holders of the Company						(14,514)

## PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)



### A8 Dividend Paid

There were no dividends paid or declared during the financial period under review.

### A9 Property, Plant and Equipment

The valuations of certain property, plant and equipment have been brought forward, without amendment from the financial statements for the year ended 31 December 2007.

Included in property, plant and equipment is one (1) unit of land rig that were classified as capital-work-in-progress until it is integrated with other supporting components prior to the commencement of operation.

### A10 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 31 December 2008 up to 26 February 2009 other than as disclosed in Note A15 on Investment in Jointly Controlled Entities, Note B8 on Status of Corporate Proposal Announced and Note B11 on Changes in Material Litigation.

### A11 Changes in 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 companies and long term investments, restructuring and discontinuing operations other than the dissolution of a wholly owned subsidiary, Horizon Gasfields Ltd ("Horizon") as announced on 30 December 2008. Horizon has ceased to carry on business and was dormant.

### A12 Changes in Contingent Liabilities and Contingent Assets

	As at 31 Dec 2008 Unaudited RM'000	As at 31 Dec 2007 Audited RM'000
<b><u>Unsecured</u></b>		
a) Bank guarantees in favour of third parties	3,838	5,811
<b><u>Secured</u></b>		
b) Corporate guarantees given by the Company to financial institutions for credit facilities granted to a jointly controlled entity	-	14,392

The unsecured contingent liabilities are mainly related to performance guarantees for oil and gas support services undertaken by the Group.

The corporate guarantees were in respect of the credit facilities taken by a jointly controlled entity, KST Gagie Labuan Ltd ("KSTGLL") for the purchase of oilfield fishing tools and equipment. Following the disputes involving the shareholders of KSTGLL and subsequent development thereof (as further disclosed in Note A15), KSTGLL has engaged in an Asset Disposal Exercise (as defined and disclosed in Note A15), the proceeds of which is to be fully utilised to repay the aforesaid credit facilities. The Company had in the last financial year ended 31 December 2007 provided for the potential liability arising from the potential crystallisation of the said corporate guarantees amounting to approximately RM7.0 million by reference to the indicative purchase prices offered by the prospective buyers then.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)**



**A12 Changes in Contingent Liabilities and Contingent Assets (Cont'd)**

KSTGGL has completed the first phase of the Asset Disposal Exercise following the receipt of USD3,773,050 from the purchaser in the third quarter ended 30 September 2008. With the reduction of the credit facilities of the aforesaid cash consideration coupled with the provision of potential liability mentioned above, the Company does not foresee any contingent liabilities associated with the corporate guarantees given to financial institutions for credit facilities granted to KSTGGL.

**A13 Capital Commitments**

	As at 31 Dec 2008 Unaudited RM'000	As at 31 Dec 2007 Audited RM'000
Approved, contracted but unpaid costs for the purchase of machineries and equipment:		
- for the Oil Country Tubular Goods end-finishing business	645	1,084
- for the tubular handling business	67	2,622

**A14 Related Party Transactions**

	3 months ended		12 months ended	
	31 Dec 2008 Unaudited RM'000	31 Dec 2007 Unaudited RM'000	31 Dec 2008 Unaudited RM'000	31 Dec 2007 Unaudited RM'000
a) Purchase of air ticket from a company in which a Director has interest	137	330	559	807
b) Interest payable to a director	34	27	225	27

Interest payable to a director is in respect of the advances amounted to RM3,000,000 (31 December 2007: RM2,000,000) made by the director which are unsecured, bear interest rate lower than the prevailing bank overdraft's rate per annum and have no fixed term of repayment. The advances have been included in Other Payables as disclosed in the Condensed Consolidated Balance Sheet as at 31 December 2008.

The Directors of the Company are of the opinion that the above transactions were in the normal course of business and have been established under terms that are less favourable than those arranged with independent parties.

**A15 Investment in Jointly Controlled Entities**

	As at 31 Dec 2008 Unaudited RM'000	As at 31 Dec 2007 Audited RM'000
Unquoted shares at cost	440	440
Net amount due from jointly controlled entities	23,083	23,083
	23,523	23,523
Share of loss in jointly controlled entities	(23,523)	(23,523)
	-	-

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)**



**A15 Investment in Jointly Controlled Entities (Cont'd)**

Details of the jointly controlled entities are as follows:

Name of Jointly Controlled Entities	Principal Activities	Country of Incorporation	Porportion of Ownership Interest	
			31 Dec 2008 %	31 Dec 2007 %
KST Gagie Sdn Bhd ^ ("KSTGSB")	Oilfield fishing services	Malaysia	50	50
KST Gagie Labuan Ltd.* ("KSTGLL")	Oilfield fishing services	Labuan	51	51

^ - 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 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 KSTGSB as joint.

\* - 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 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 is currently at the initial stage of submissions of claims, replies, defences and counterclaims by both parties and the first hearing of the arbitration which was tentatively fixed for February 2009 has been rescheduled to May 2009, the date of which has yet to be established.

Subsequent to the terminations, the Company has procured its wholly owned subsidiary, namely KST Fishing Services Sdn Bhd ("KSTFS") to continue with the implementation of the oilfield fishing contracts pending the resolution of disputes with Gagie through legal proceedings. In this respect, Gagie is challenging the "mirror arrangement" installed by the Company through application of injunctive relief from the Court to refrain the Company and KSTFS from continuing with the implementation of oilfield fishing contracts using the assets and receivables of the jointly controlled entities.

## PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)



### A15 Investment in Jointly Controlled Entities (Cont'd)

On 1 November 2007, the Court granted various injunctions to Gagie which inter-alia refrained the Company and KSTFS from the using of assets and receivables of the jointly controlled entities. The Company has therefore informed the contract awarders of its intention to surrender back the contracts which have been rendered impossible to implement without access to the assets of the jointly controlled entities.

Following the aforesaid development, the Board of Directors of KSTGLL had on 27 November 2007 approved the asset disposal exercise ("Asset Disposal Exercise") for all oilfield fishing tools and equipment and resolved that all the proceeds arising from the (i) asset disposal exercise and (ii) receivables from customer pertaining to oilfield fishing activities prior to termination of shareholders' agreement by the Company, are to be used to repay the outstanding credit facilities utilised by KSTGLL.

On 24 July 2008 KSTGLL has entered into an Asset Purchase Agreement with Smith International Inc ("Smith") (hereinafter referred to as "Disposal to Smith") to dispose all its principal oilfield fishing tools and equipment identified by Smith for a total cash consideration of USD4,732,626.11 (equivalent to RM15,350,272.79 based on the exchange rate of USD1.00:RM3.2435) subject to the terms and conditions therein. The consideration was arrived at on a willing buyer and willing seller basis after taking into consideration of the book value of the said tools and equipment. The Disposal to Smith is the result of the Asset Disposal Exercise mentioned above which was also approved by the shareholders of KSTGLL on 7 July 2008. The proceeds from the disposal is to be fully utilised to substantially repay the outstanding credit facilities utilised by KSTGLL.

KSTGLL has completed the first phase of the disposal of oilfield fishing tools and equipment pursuant to the Disposal to Smith exercise following the receipt of the sale proceeds amounted to USD3,773,050 by KSTGLL from Smith in the third quarter ended 30 September 2008. KSTGLL is currently working with Smith in respect of the pricing and documentation of the balance tools and equipment so identified to be purchased by Smith. Barring any unforeseen circumstances, both KSTGLL and Smith expect to complete the said exercise during the first half of the calendar year 2009.

Based on the aforesaid development, the Company does not foresee any requirement to make further provision for potential liabilities arising from the potential crystallisation of the corporate guarantees given to the financial institutions for credit facilities granted to KSTGLL as disclosed in Note A12.

### A16 Other Investments

	As at 31 Dec 2008 Unaudited RM'000	As at 31 Dec 2007 Audited RM'000
Unquoted shares at cost	60	60
Subordinated bonds	3,000	3,000
	<u>3,060</u>	<u>3,060</u>
Less: Accumulated impairment loss	(24)	(24)
	<u>3,036</u>	<u>3,036</u>

The subordinated bonds is in respect of a special purpose entity pertaining to the participation of the Company in a Collateralised Loan Obligations program in which RM30,000,000 term loan was granted to the Company.

There is no fixed coupon rate for the subordinated bonds and the maturity date of the subordinated bonds is January 26, 2012.

**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING  
REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**



**B1 Review of Performance**

For the current financial quarter under review, the Group registered a total revenue of RM16.1 million, which was RM2.8 million or 15% lower when compared to last year's corresponding period of RM18.9 million.

The drop in revenue for the current financial quarter against last year's corresponding quarter was mainly due to reduced revenue from its land drilling rig business and lower demand of threading services recorded by the Oil Country Tubular Goods (OCTG) end-finishing operation.

The lower revenue earned coupled with continuous upward cost pressure which has affected its profit margin during the financial quarter under review have resulted in the Group incurring a loss before taxation of RM1.1 million. Despite of the said loss, the Group performs better during the current financial quarter when compared to the corresponding financial quarter during which the Group chalked up a loss before taxation of RM22.9 million. The results of the corresponding financial quarter was affected by share of loss in jointly controlled entities as well as provisions in relation to the Group's failed venture in the oilfield fishing operation.

**B2 Variation of Results Against Preceding Quarter**

The Group's revenue of RM16.1 million for the current financial quarter under review is slightly lower than that of the preceding financial quarter - by approximately 6% over the Group's revenue of the preceding financial quarter. This was mainly attributable to the reduction in the number of oil rigs to which the tubular handling and hammer services are rendered when compared to oil rigs serviced in the preceding financial quarter. The tubular handling services operation recorded a drop in revenue of approximately RM1.8 million for the current financial quarter.

The reduced revenue of the Group has resulted in a reduction of the Group's gross profit by approximately RM0.6 million which translated into a higher loss before taxation for the Group of about RM1.1 million when compared to the Group's loss before taxation of RM0.4 million recorded in the preceding quarter.

On overall, the Group recorded a higher loss after taxation and minority interest of RM3.2 million due principally to under provision of taxation in the previous year of a subsidiary company of approximately RM0.5 million and losses incurred by the land drilling rig operation undertaken by a wholly owned foreign company.

**B3 Prospects for Financial Period ending 30 June 2009**

Against the backdrop of a financial crisis in many parts of the world and a global recession as well as the uncertain future outlook of the crude oil prices, the Board of Directors ("Board") is of the view that the remain part of the financial period ending 30 June 2009 would be a challenging and testing period for the Group amidst difficult operating conditions.

The Group will continue its vigorous efforts to source for new contracts and businesses for its core operations (in particular its land rig services) for both local and international markets, as well as addressing the issues relating to the ceased oilfield fishing venture. For the entire financial period 2009, the Group will continue to focus on the enhancement and consolidation of all its existing core businesses and maintain its cost saving measures to sustain its margin and remain competitive.

**B4 Variance from Profit Forecast and Profit Guarantee**

This is not applicable to the Group.

**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (CONT'D)**



**B5 Income Tax Expense**

	3 months ended		12 months ended	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	Unaudited	Unaudited	Unaudited	Unaudited
	RM'000	RM'000	RM'000	RM'000
<b>Taxation based on results</b>				
Malaysian taxation				
- Current financial period	1,544	(416)	2,592	1,525
- Under provision in the prior years	518	263	518	263
Foreign Taxation	10	(4,044)	294	119
Deferred taxation	-	(299)	-	(299)
	<u>2,072</u>	<u>(4,496)</u>	<u>3,404</u>	<u>1,608</u>

Domestic income tax is calculated at the Malaysian Statutory tax rate of 26% (2007: 27%) of the estimated assessable profit for the period. Taxation for other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

**B6 Profit on sale of Unquoted Investments and/or Properties**

There was no purchase and/or sale of unquoted investments or properties during the current financial period under review.

**B7 Quoted Investments**

There was no purchase and/or sale of quoted investments during the current financial period under review.

**B8 Status of Corporate Proposal Announced**

**a) Executives' Share Option Scheme ("ESOS")**

The ESOS of the Company which had been approved by the shareholders, has not been implemented.

**b) Private Placement**

The Private Placement involving the issuance of 9,680,000 new ordinary shares of RM0.50 each which was approved by the Securities Commission ("SC"), Bursa and Ministry of International Trade and Industry on 11 April 2008, 22 April 2008 and 25 April 2008 respectively, was completed on 9 June 2008. The Private Placement raised a gross proceeds of RM4.84 million. The entire proceeds were fully utilised in the third quarter ended 30 September 2008 to defray expenses related to the Private Placement exercise and for working capital purpose.

**c) Proposed Capital Restructuring and Fund Raising Exercise**

On 14 August 2008, the Company proposes to undertake a capital restructuring scheme to be followed by a fund raising proposal as follows:

- (i) Proposed reduction of the Company's issued and paid-up share capital which entails the cancellation of RM0.20 from the existing par value of RM0.50 for every ordinary share in the Company ("KSTB Shares") pursuant to Section 64 of the Companies Act, 1965 ("S64") ("Proposed Capital Reduction");



**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (CONT'D)**



**B8 Status of Corporate Proposal Announced (Cont'd)**

**d) Proposed Capital Restructuring and Fund Raising Exercise (Cont'd)**

- (ii) Proposed set off of credit arising from the Proposed Capital Reduction against the accumulated losses of the Company ("Proposed Set Off");
- (iii) Proposed renounceable rights issue of up to 63,888,000 new ordinary shares of RM0.30 each in the Company ("Rights Shares") on the basis of three (3) Rights Shares for every five (5) ordinary shares of RM0.30 each in the Company held after the Proposed Capital Reduction and Proposed Set Off at an issue price to be determined ("Proposed Rights Issue");
- (iv) Proposed reduction in the authorised share capital of the Company from RM100,000,000 comprising 200,000,000 ordinary shares of RM0.50 each into RM90,000,000 comprising 300,000,000 ordinary shares of RM0.30 each ("Proposed Reduction in Authorised Share Capital"); and
- (v) Proposed amendments to the Memorandum and Articles of Association of the Company to allow for the alteration in the authorised share capital of the Company ("Proposed M&A Amendments").

The Proposed Capital Reduction, Proposed Set Off and Proposed Reduction in Authorised Share Capital would collectively be known as the "Proposed Capital Restructuring". The Proposed Capital Restructuring, Proposed Rights Issue and Proposed M&A Amendments would collectively be known as the "Proposals".

Based on the present issued and paid up share capital of the Company of RM53,240,000 comprising 106,480,000 KSTB Shares as at 30 June 2008, the Proposed Capital Reduction would result in a credit of RM21,296,000. The Proposed Capital Reduction would result in a reduction in the issued and paid-up share capital of Company to RM31,944,000 comprising 106,480,000 ordinary shares of RM0.30 each in the Company. The credit arising from the Proposed Capital Reduction of RM21,296,000 will be used to set off against the audited accumulated losses of the Company of RM23,945,888 as at 31 December 2007.

The Company has determined a minimum subscription level of 33,333,333 Rights Shares ("Minimum Subscription Level") for the Proposed Rights Issue based on the minimum issued and paid-up share capital of RM40 million required for listing on the Second Board of Bursa Securities. 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 RM10,000,000 under the Minimum Subscription Level scenario and up to RM19,166,400 in the event of full subscription for the Proposed Rights Issue.

The Proposals are subject to and conditional upon approvals/consents being obtained from the following:

- (i) the SC for the Proposed Rights Issue;
- (ii) the High Court of Malaya for the Proposed Capital Restructuring pursuant to S64;
- (iii) Bursa for the listing of and quotation for the Rights Shares to be issued pursuant to the Proposed Rights Issue;
- (iv) the shareholders of the Company at an Extraordinary General Meeting ("EGM") to be convened for the Proposals; and any other relevant authorities/parties (if applicable).

The approval of the SC was obtained on 3 September 2008 whilst the shareholders of the Company approved the Proposals at an EGM held on 10 October 2008. On 13 February 2009, the Company has via its Advisers submitted an application to seek the SC's approval for an extension of time of six (6) months up to 2 September 2009 for the Company to implement the Proposed Rights Issue ("Extension"). The SC's approval in relation to the Extension was obtained on 19 February 2009.

**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING  
REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (CONT'D)**



**B9 Group Borrowings and Debt Securities**

	As at 31 Dec 2008 Unaudited RM'000	As at 31 Dec 2007 Audited RM'000
<b>a) Short term borrowings</b>		
Repayable within twelve months		
- Secured	6,754	9,295
- Unsecured	41,970	40,386
	48,724	49,681
<b>b) Long term borrowings</b>		
Repayable after twelve months		
- Secured	10,033	13,402
- Unsecured	47,520	64,045
Portion repayable after one year	57,553	77,447
<b>Borrowings denominated in foreign currency:</b>		
United States Dollars (USD'000)	12,729	16,752
Ringgit Malaysia equivalent (RM'000)	44,093	55,387

Included in the unsecured long term borrowings above is the RM30.0 million term loan that granted under a Collateralised Loan Obligations program arranged by a licensed financial institution.

As one of the conditions to participate in the Collateralised Loan Obligations program, the Company subscribed for subordinated bonds amounting to RM3.0 million or equivalent to 10% of the term loan granted, in a special purpose entity as mentioned in Note A16.

**B10 Off Balance Sheet Financial Instruments**

The Group does not have any off balance sheet financial instrument as at 26 February 2009.

**B11 Changes in Material Litigation**

On 22 May 2007, the Company announced that the Company, Dato' Chee Peck Kiat @ Chee Peck Jan (a shareholder and director of the Company and a director of KSTFS) and KSTFS (collectively be 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 be referred to as the "Plaintiffs") in the High Court of Malaya at Kuala Lumpur (Suite No. D8-22-613-2007 or "the Suit") as well as an ex-parte injunction application by the Plaintiffs against the Defendants. The Suit was commenced arising from the termination by the Company of the Shareholders' Agreement dated 19 December 2005 entered into between Gagie and the Company to govern the rights of the parties in relation to KSTGSB on 5 April 2007. The termination was announced on 6 April 2007 by the Company to Bursa.

The injunction application was heard on various dates and on 1 November 2007, the High Court granted various interim injunctions against the Defendants. The grant of the interim injunctions by the High Court on 1 November 2007 had the effect of, inter alia, restraining the Defendants, until trial of the action or further order from:

**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING  
REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (CONT'D)**



**B11 Changes in Material Litigation (Cont'd)**

- 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 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 sum 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.

On 12 November 2007, on the advice of the lawyers acting for the 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 (Suit No. D7-22-1534 2007) 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.

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, the 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 to them; or alternatively, judgment in the sum of their current replacement value of USD270,316.66 and general damages to be assessed.

The Company has been advised by its lawyers that with respect to the Company's defence to the Suit, the 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 mitigating their losses/damages as well as losses/damages suffered by KSTGSB and KSTGLL.

**B12 Dividend**

No dividend has been declared for the current financial period under review.

**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING  
REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (CONT'D)**



**B13 Loss Per Share**

Basic loss per share is calculated by dividing 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: -

	3 months ended		12 months ended	
	31 Dec 2008 Unaudited	31 Dec 2007 Unaudited	31 Dec 2008 Unaudited	31 Dec 2007 Unaudited
- Loss attributable to equity holders of the parent (RM'000)	(2,960)	(18,863)	(2,660)	(14,514)
- Weighted average number of ordinary shares in issue ('000)	106,480	96,800	102,447	96,800
Basic loss per share (sen)	<u>(2.78)</u>	<u>(19.49)</u>	<u>(2.60)</u>	<u>(14.99)</u>

The calculations of diluted earnings per share is not applicable as the Company does not have any share option in issue.

**BY ORDER OF THE BOARD**

Dato' Chee Peck Kiat @ Chee Peck Jan  
Executive Director  
Kuala Lumpur  
26 February 2009