

# **KEJURUTERAAN SAMUDRA TIMUR BERHAD**

**Interim Financial Report for  
5th Quarter Ended 31<sup>st</sup> March 2009  
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  
FIFTH FINANCIAL QUARTER ENDED 31 MARCH 2009**

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

	Note	Fifth Quarter ended 31 March		Cumulative Fifteen Months ended 31 March	
		2009 Unaudited RM'000	2008 Unaudited RM'000	2009 Unaudited RM'000	2008 Unaudited RM'000
<b>Continuing Operations</b>					
Revenue		15,496	N/A	87,810	N/A
Cost of sales		(11,692)	N/A	(62,189)	N/A
<b>Gross profit</b>		<u>3,804</u>	<u>N/A</u>	<u>25,621</u>	<u>N/A</u>
Other income		105	N/A	264	N/A
Administrative expenses		(1,216)	N/A	(6,374)	N/A
Operating expenses		(973)	N/A	(8,701)	N/A
Finance cost		(1,627)	N/A	(9,772)	N/A
Share of loss in jointly controlled entities		-	N/A	-	N/A
<b>Profit before taxation</b>		<u>93</u>	<u>-</u>	<u>1,038</u>	<u>-</u>
Income tax expense	<b>B5</b>	(969)	N/A	(4,373)	N/A
<b>Loss for the period</b>		<u>(876)</u>	<u>-</u>	<u>(3,335)</u>	<u>-</u>
Attributable to:					
Equity holders of the parent		(904)	N/A	(3,564)	N/A
Minority interest		28	N/A	229	N/A
		<u>(876)</u>	<u>N/A</u>	<u>(3,335)</u>	<u>N/A</u>
Loss Per Share (sen)	<b>B13</b>				
Basic		<u>(0.85)</u>	<u>N/A</u>	<u>(3.45)</u>	<u>N/A</u>
Fully diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

N/A - Not Applicable

*(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.)*

*(As announced on 14 August 2008 and as disclosed in Note A1, the Group has changed its financial year end to 30 June. With this, the current financial statements shall be for an Eighteen (18) months' period made up from 1 January 2008 to 30 June 2009. As such there are no comparative figures for this Condensed Consolidated Income Statements.)*

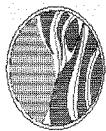
**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS AT 31 MARCH 2009 AND 31 DECEMBER 2007**



		As at 31 March 2009 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	149,525	159,641
Prepaid lease payments		1,469	1,493
Goodwill on consolidation		10,278	10,278
Investment in jointly controlled entities	A15	-	-
Other investment	A16	3,036	3,036
		164,308	174,448
<b>Current assets</b>			
Inventories		4,007	3,611
Trade receivables		18,323	29,961
Other receivables		6,472	7,032
Tax recoverable		366	559
Amount due from jointly controlled entities	A15	-	-
Cash and bank balances (including fixed deposits)		3,722	3,885
		32,890	45,048
<b>TOTAL ASSETS</b>		197,198	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		5,557	3,124
Accumulated losses		(13,500)	(9,936)
		54,580	50,871
<b>Minority interest</b>		1,408	1,055
<b>Total equity</b>		55,988	51,926
<b>Non-current liabilities</b>			
Bank borrowings	B9	70,311	77,447
Deferred tax liabilities		7,561	7,561
		77,872	85,008
<b>Current liabilities</b>			
Trade payables		2,475	1,475
Other payables		23,081	26,807
Amount due to a jointly controlled entity	A15	-	4,063
Bank borrowings	B9	35,964	49,681
Tax payable		1,818	536
		63,338	82,562
<b>Total liabilities</b>		141,210	167,570
<b>TOTAL EQUITY AND LIABILITIES</b>		197,198	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 15 MONTH FINANCIAL PERIOD ENDED 31 MARCH 2009**

	← Attributable to equity holders of the parent →		← Non-distributable →		Distributable		Minority interest	Total equity
	Share Capital	Share Premium	Revaluation Reserve	Foreign Exchange Reserve	Retained Earnings/ Accumulated Losses	RCPS*		
Note	RM'000	RM'000	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	4,438	(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	4,438	(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	4,468	(1,344)	(9,936)	-	50,871	51,926
<b>At 1 January 2008</b>	48,400	9,283	4,468	(1,344)	(9,936)	-	50,871	51,926
Issue of shares - Placement	4,840	-	-	-	-	-	4,840	4,840
Foreign currency translation	-	-	-	2,433	-	-	2,433	2,557
Net loss for the period	-	-	-	-	(3,564)	-	(3,564)	(3,335)
<b>At 31 March 2009 (Unaudited)</b>	53,240	9,283	4,468	1,089	(13,500)	-	54,580	55,988

\* - The Redeemable Convertible Preference Share comprises 1 share of RMI.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.)

(As announced on 14 August 2008 and as disclosed in Note A1, the Group has changed its financial year end to 30 June. With this, the current financial statements shall be for an Eighteen (18) months' period made up from 1 January 2008 to 30 June 2009.)



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE 15 MONTH FINANCIAL PERIOD ENDED 31 MARCH 2008**

	← Attributable to equity holders of the parent →										Minority interest	Total equity
	← Non-distributable →					Distributable						
	Share Capital	Share Premium	Revaluation Reserve	Foreign Exchange Reserve	Retained Earnings	RCPS*	Total	Minority interest	Total equity			
RM'000	RM'000	RM'000	RM'000	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	471	7,436	-	62,338	-	62,338			
Issue of shares - Placement	4,400	3,218	-	-	-	-	7,618	-	7,618			
Issue of shares by a subsidiary	-	-	-	-	-	-	-	17	17			
Effect of reduction in domestic income tax rate	-	-	72	-	-	-	72	-	72			
Foreign currency translation	-	-	-	(992)	-	-	(992)	(6)	(998)			
Net loss for the year	-	-	-	-	(1,414)	-	(1,414)	178	(1,236)			
<b>At 31 December 2006 (Audited)</b>	<b>48,400</b>	<b>9,283</b>	<b>4,438</b>	<b>(521)</b>	<b>6,022</b>	<b>-</b>	<b>67,622</b>	<b>189</b>	<b>67,811</b>			
<b>At 1 January 2007 (restated)</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Foreign currency translation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Effect of reduction in domestic income tax rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Net loss for the period	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Final dividend paid for financial year ended 31 December 2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
<b>At 31 March 2008 (Unaudited)</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>			

\* - 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.)

(As announced on 14 August 2008 and as disclosed in Note A1, the Group has changed its financial year end to 30 June. With this, the current financial statements shall be for an Eighteen (18) months' period made up from 1 January 2008 to 30 June 2009.)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE 15 MONTH FINANCIAL PERIOD ENDED 31 MARCH**



	15 months ended	
	31 March 2009 Unaudited RM'000	31 March 2008 Unaudited RM'000
<b>Cash Flows From Operating Activities</b>		
Profit / (Loss) before taxation	1,038	N/A
Adjustments for non-cash and non-operating items:		
- Non-cash items	19,074	N/A
- Investing and financing items	9,321	N/A
<b>Operating profit before changes in working capital</b>	29,433	N/A
Changes in working capital:		
- Changes in current assets	12,045	N/A
- Changes in current liabilities	(7,104)	N/A
Interest paid	(9,400)	N/A
Interest received	142	N/A
Net taxation (paid) / refund	(2,898)	N/A
<b>Net cash generated from operating activities</b>	22,218	N/A
<b>Net cash generated from / (used in) investing activities</b>	(552)	N/A
<b>Net cash (used in) / generated from financing activities</b>	(15,630)	N/A
<b>Net Change in Cash and Cash Equivalents</b>	6,036	N/A
<b>Cash and Cash Equivalents at Beginning of Period</b>	(9,334)	N/A
<b>Effects of exchange rate changes</b>	(5,815)	N/A
<b>Cash and Cash Equivalents at End of Period</b>	(9,113)	N/A
<b>Analysis of Cash and Cash Equivalents:</b>		
Cash and bank balances	3,223	N/A
Deposits with licensed financial institutions	499	N/A
Bank overdrafts	(12,835)	N/A
<b>Cash and Cash Equivalents</b>	(9,113)	N/A

*(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.)*

*(As announced on 14 August 2008 and as disclosed in Note A1, the Group has changed its financial year end to 30 June. With this, the current financial statements shall be for an Eighteen (18) months' period made up from 1 January 2008 to 30 June 2009.)*

## 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**

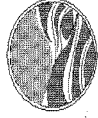
During the financial period under review, there was no change in accounting estimates adopted by the Group.

**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.

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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>UNAUDITED RESULTS FOR 15-MONTH PERIOD AND PERIOD-TO-DATE ENDED 31.3.2009</b>							
<b>Revenue</b>							
- External	44,450	6,503	8,021	28,836	-	-	87,810
- Inter-segment	514	797	-	-	-	(1,311)	-
Total revenue	<u>44,964</u>	<u>7,300</u>	<u>8,021</u>	<u>28,836</u>	<u>-</u>	<u>(1,311)</u>	<u>87,810</u>
<b>Results</b>							
- Segment results	9,395	1,527	(2,221)	2,300	(191)	-	10,810
- Finance cost	(5,568)	(5)	(3,208)	(991)	-	-	(9,772)
- Share of loss in jointly controlled entities							-
Profit before taxation							1,038
- Taxation							(4,373)
Loss after taxation							(3,335)
Minority interest							(229)
Loss for the period attributable to equity holders of the Company							<u>(3,564)</u>

(As announced on 14 August 2008 and as disclosed in Note A1, the Group has changed its financial year end to 30 June. With this, the current financial statements shall be for an Eighteen (18) months' period made up from 1 January 2008 to 30 June 2009.)



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	Land Rig 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 15-MONTH PERIOD AND PERIOD-TO-DATE ENDED 31.3.2008</b>							
<b>Revenue</b>							
- External	N/A	N/A	N/A	N/A	N/A	N/A	N/A
- Inter-segment	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Results</b>							
- Segment results	N/A	N/A	N/A	N/A	N/A	N/A	N/A
- Finance cost	N/A	N/A	N/A	N/A	N/A	N/A	N/A
- Share of loss in jointly controlled entities							N/A
Loss before taxation							N/A
- Taxation							N/A
Loss after taxation							N/A
Minority interest							N/A
Loss for the period attributable to equity holders of the Company							N/A

(As announced on 14 August 2008 and as disclosed in Note A1, the Group has changed its financial year end to 30 June. With this, the current financial statements shall be for an Eighteen (18) months' period made up from 1 January 2008 to 30 June 2009.)

## 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 March 2009 up to 18 May 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.

### A12 Changes in Contingent Liabilities and Contingent Assets

	As at 31 March 2009 Unaudited RM'000	As at 31 Dec 2007 Audited RM'000
<b><u>Unsecured</u></b>		
a) Bank guarantees in favour of third parties	3,431	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)**

As at end of the financial period under review, KSTGLL has received a total proceeds of approximately USD3.9 million from the disposal of its tools and equipment pursuant to the Asset Disposal Exercise. 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 KSTGLL.

**A13 Capital Commitments**

	<b>As at 31 March 2009 Unaudited RM'000</b>	<b>As at 31 Dec 2007 Audited RM'000</b>
Approved, contracted but unpaid costs for the purchase of machineries and equipment:		
- for the Oil Country Tubular Goods end-finishing business	526	1,084
- for the tubular handling business	449	2,622

**A14 Related Party Transactions**

	<b>3 months ended</b>		<b>15 months ended</b>	
	<b>31 March 2009 Unaudited RM'000</b>	<b>31 March 2008 Unaudited RM'000</b>	<b>31 March 2009 Unaudited RM'000</b>	<b>31 March 2008 Unaudited RM'000</b>
a) Purchase of air ticket from a company in which a Director has interest	195	N/A	753	N/A
b) Interest payable to a director	53	N/A	278	N/A

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 March 2009.

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**

	<b>As at 31 March 2009 Unaudited RM'000</b>	<b>As at 31 Dec 2007 Audited RM'000</b>
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 March 2009 %	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 first hearing of the arbitration has been scheduled on 19 May 2009.

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.



### 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 KSTGGL 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 KSTGGL.

On 24 July 2008 KSTGGL 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 KSTGGL on 7 July 2008. The proceeds from the disposal is to be fully utilised to substantially repay the outstanding credit facilities utilised by KSTGGL.

As at end of the financial period under review, KSTGGL has received a total proceeds of approximately USD3.9 million from the disposal of its tools and equipments pursuant to the Asset Disposal Exercise. KSTGGL is currently working with Smith and considering other prospective purchasers for sale of the balance tools and equipment.

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 KSTGGL as disclosed in Note A12.

### A16 Other Investments

	As at 31 March 2009 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 RM15.5 million with a gross profit of approximately RM3.8 million. The aforesaid performance translated into a marginal profit before taxation of about RM93,000. For the entire 15 month financial period ended 31 March 2009, the Group recorded a profit before taxation of RM1.0 million.

Despite of the aforesaid positive operating profits, the Group chalked up a net loss attributable to equity holders of the parent of RM0.9 million and RM3.6 million for the current financial quarter under review and 15 month financial period ended 31 March 2009 respectively. This was mainly due to losses incurred by a foreign unit which are not eligible for any tax deduction and/or group tax relief purposes

**B2 Variation of Results Against Preceding Quarter**

The Group's revenue of RM15.5 million for the current financial quarter under review is slightly lower than that of the preceding financial quarter - by approximately 4% over the Group's revenue of the preceding financial quarter. This was due to lower number of pipes or joints serviced by the Oil Country Tubular Goods (OCTG) end-finishing operation / unit. This operation / unit recorded a drop in revenue of approximately RM2.2 million for the current financial quarter. The said drop was however to a great extent cushioned by an improved performance of the Group's tubular handling services during the same financial quarter.

Nonetheless the Group managed to achieve almost similar gross profit of approximately RM3.8 million when compared to that of the preceding financial quarter.

On overall, the Group turned in a profit before taxation of approximately RM93,000 with a lower loss after taxation and minority interest of RM0.9 million during the current financial quarter under review as compared to a loss before taxation of RM1.1 million and loss after taxation and minority interest of approximately RM3.0 million chalked up in the preceding financial quarter.

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

Against the backdrop of a financial crisis and 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		15 months ended	
	31 March 2009	31 March 2008	31 March 2009	31 March 2008
	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
<b>Taxation based on results</b>				
Malaysian taxation				
- Current financial period	955	N/A	3,547	N/A
- Under provision in the prior years	9	N/A	527	N/A
Foreign Taxation	5	N/A	299	N/A
Deferred taxation	-	N/A	-	N/A
	<u>969</u>	<u>N/A</u>	<u>4,373</u>	<u>N/A</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)**

**c) 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 March 2009 Unaudited RM'000	As at 31 Dec 2007 Audited RM'000
<b>a) Short term borrowings</b>		
Repayable within twelve months		
- Secured	6,294	9,295
- Unsecured	29,670	40,386
	35,964	49,681
<b>b) Long term borrowings</b>		
Repayable after twelve months		
- Secured	8,650	13,402
- Unsecured	61,661	64,045
Portion repayable after one year	70,311	77,447
<b>Borrowings denominated in foreign currency:</b>		
United States Dollars (USD'000)	12,690	16,752
Ringgit Malaysia equivalent (RM'000)	46,280	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 18 May 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		15 months ended	
	31 March 2009	31 March 2008	31 March 2009	31 March 2008
	Unaudited	Unaudited	Unaudited	Unaudited
- Loss attributable to equity holders of the parent (RM'000)	(904)	N/A	(3,564)	N/A
- Weighted average number of ordinary shares in issue ('000)	106,480	N/A	103,253	N/A
Basic loss per share (sen)	<u>(0.85)</u>	<u>N/A</u>	<u>(3.45)</u>	<u>N/A</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  
 18 May 2009