



KEJURUTERAAN SAMUDRA TIMUR BERHAD

**Interim Financial Report for
2nd Quarter Ended 31st December 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
SECOND FINANCIAL QUARTER ENDED 31 DECEMBER 2009**

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

	Note	Second Quarter ended		Cumulative Six Months ended	
		31 December 2009	30 June 2008	31 December 2009	30 June 2008
		Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Continuing Operations					
Revenue		17,458	18,214	33,701	39,010
Cost of sales		(15,245)	(12,493)	(30,255)	(25,621)
Gross profit		<u>2,213</u>	<u>5,721</u>	<u>3,446</u>	<u>13,389</u>
Other income		116	11	182	153
Administrative expenses		(1,735)	(1,759)	(3,248)	(3,226)
Operating expenses		(1,168)	(1,286)	(2,738)	(3,515)
Finance cost		(1,457)	(1,952)	(2,943)	(4,317)
(Loss) / Profit before taxation		<u>(2,031)</u>	<u>735</u>	<u>(5,301)</u>	<u>2,484</u>
Income tax expense	B5	(660)	(209)	(1,177)	(654)
(Loss) / Profit for the period		<u>(2,691)</u>	<u>526</u>	<u>(6,478)</u>	<u>1,830</u>
Attributable to:					
Equity holders of the parent		(2,698)	443	(6,470)	1,532
Minority interest		7	83	(8)	298
		<u>(2,691)</u>	<u>526</u>	<u>(6,478)</u>	<u>1,830</u>
(Loss) / Earnings Per Share (sen)	B13				
Basic		<u>(2.53)</u>	<u>0.44</u>	<u>(6.08)</u>	<u>1.56</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 period ended 30 June 2009 and the accompanying explanatory notes attached to the interim financial statements.)

CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2009 AND 30 JUNE 2009



		As at 31 December 2009 Unaudited RM'000	As at 30 June 2009 Audited RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	A9	137,560	142,588
Prepaid lease payments		1,454	1,464
Goodwill on consolidation		5,242	10,278
Investment in jointly controlled entities	A15	-	-
Other investments	A16	2,658	2,658
		146,914	156,988
Current assets			
Inventories		4,461	4,044
Trade receivables		19,377	13,918
Other receivables		6,809	9,422
Tax recoverable		741	558
Amount due from jointly controlled entities	A15	-	-
Cash and bank balances (including fixed deposits)		1,962	1,613
		33,350	29,555
TOTAL ASSETS		180,264	186,543
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	A6	53,240	53,240
Share premium		9,283	9,283
Other reserves		3,134	2,872
Accumulated losses		(29,953)	(23,483)
		35,704	41,912
Minority interest		6,142	1,343
Total equity		41,846	43,255
Non-current liabilities			
Bank borrowings	B9	55,326	63,661
Deferred tax liabilities		6,597	6,586
		61,923	70,247
Current liabilities			
Trade payables		6,649	5,629
Other payables		18,513	21,321
Amount due to a jointly controlled entity	A15	-	-
Bank borrowings	B9	50,766	44,682
Tax payable		567	1,409
		76,495	73,041
Total liabilities		138,418	143,288
TOTAL EQUITY AND LIABILITIES		180,264	186,543

(The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for the period ended 30 June 2009 and the accompanying explanatory notes attached to the interim financial statements.)



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2009**

	← Attributable to equity holders of the parent →				Minority interest ("MI")	Total equity
	← Non-distributable	Foreign Exchange Reserve	Distributable Retained Earnings/ Accumulated Losses)	RCPS*		
Share Capital RM'000	Share Premium RM'000	Revaluation Reserve RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2008	48,400	9,283	4,468	(1,344)	(9,936)	50,871
Issue of shares - Placement	4,840	-	-	-	-	4,840
Redeemed of RCPS *	-	-	-	-	-	-
Foreign currency-translation	-	-	-	(252)	-	(252)
Net loss for the period	-	-	-	-	(13,547)	(13,547)
At 30 June 2009 (Audited)	53,240	9,283	4,468	(1,596)	(23,483)	41,912
At 1 July 2009	53,240	9,283	4,468	(1,596)	(23,483)	41,912
MI from divestment in Subsidiary	-	-	-	-	-	-
Foreign currency translation	-	-	-	262	-	262
Net loss for the period	-	-	-	-	(6,470)	(6,470)
At 31 December 2009 (Unaudited)	53,240	9,283	4,468	(1,334)	(29,953)	35,704

* - The Redeemable Convertible Preference Share comprises 1 share of RM1.00. The RCPS was redeemed in the previous financial period.

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the period ended 30 June 2009 and the accompanying explanatory notes attached to the interim financial statements.)



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2009**

	Attributable to equity holders of the parent										Minority interest	Total equity
	Non-distributable					Distributable						
	Share Capital RM'000	Share Premium RM'000	Revaluation Reserve RM'000	Exchange Reserve RM'000	Foreign Reserve RM'000	Retained Earnings RM'000	RCPS* RM'000	Total RM'000	RM'000	RM'000		
At 1 January 2007	48,400	9,283	4,438	(521)	-	5,778	-	67,378	189	67,567		
As previously stated	-	-	-	-	-	244	-	244	-	244		
Effect of adopting FRS 112												
At 1 January 2007 (restated)	48,400	9,283	4,438	(521)	-	6,022	-	67,622	189	67,811		
Effect of reduction in domestic income tax rate	-	-	30	-	-	-	-	30	-	30		
Foreign currency translation	-	-	-	(823)	-	-	-	(823)	(36)	(859)		
Dividend	-	-	-	-	-	(1,413)	-	(1,413)	-	(1,413)		
Net loss for the year	-	-	-	-	-	(14,545)	-	(14,545)	902	(13,643)		
At 31 December 2007 (Audited)	48,400	9,283	4,468	(1,344)	-	(9,936)	-	50,871	1,055	51,926		
At 1 January 2008	48,400	9,283	4,468	(1,344)	-	(9,936)	-	50,871	1,055	51,926		
Issue of shares - Placement	4,840	-	-	-	-	-	-	4,840	-	4,840		
Foreign currency translation	-	-	-	35	-	-	-	35	(8)	27		
Net profit for the period	-	-	-	-	-	1,532	-	1,532	298	1,830		
At 31 March 2008 (Unaudited)	53,240	9,283	4,468	(1,309)	-	(8,404)	-	57,278	1,345	58,623		

* - 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 period ended 30 June 2009 and the accompanying explanatory notes attached to the interim financial statements.)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE 6 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER AND 30 JUNE



	6 months ended	
	31 December 2009 Unaudited RM'000	30 June 2008 Unaudited RM'000
Cash Flows From Operating Activities		
(Loss) / Profit before taxation	(5,301)	2,484
Adjustments for non-cash and non-operating items:		
- Non-cash items	9,554	7,225
- Investing and financing items	2,724	3,792
Operating profit before changes in working capital	6,977	13,501
Changes in working capital:		
- Changes in current assets	(3,263)	12,100
- Changes in current liabilities	(1,888)	(6,315)
Interest paid	(2,844)	(3,977)
Interest received	10	124
Net change in taxation	(2,191)	(934)
Net cash generated from operating activities	(3,199)	14,499
Net cash used in investing activities	3,373	(1,597)
Net cash used in financing activities	1,044	(8,372)
Net Change in Cash and Cash Equivalents	1,218	4,530
Cash and Cash Equivalents at Beginning of Period	(9,916)	(9,334)
Effects of exchange rate changes	2,426	1,004
Cash and Cash Equivalents at End of Period	(6,272)	(3,800)
Analysis of Cash and Cash Equivalents:		
Cash and bank balances	1,467	5,321
Deposits with licensed financial institutions	495	507
Bank overdrafts	(8,234)	(9,628)
Cash and Cash Equivalents	(6,272)	(3,800)

(The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the period ended 30 June 2009 and the accompanying explanatory notes attached to the interim financial statements.)



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 period ended 30 June 2009. 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 period ended 30 June 2009.

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 period ended 30 June 2009 except for the adoption of the following new FRS:

	For financial periods beginning on or after
FRS 8 : Operating Segments	1 July 2009

The adoption of the above mentioned FRS does not have any significant financial impact on the results of the Group except for changes in disclosure.

A2 Auditors' Report on Preceding Annual Financial Statements

The Auditors' Report of the financial statements for the financial period ended 30 June 2009 was not qualified.

A3 Seasonal or Cyclical Factors

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

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.



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

A7 Segmental Information

UNAUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2009	Tubular Handling Services	Tubular Inspection and Maintenance Services	Land Rig Services	Oil and gas pipes Threading Services	Oilfields Fishing Services & Others	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue							
- External	14,271	3,965	7,823	7,642	-	-	33,701
- Inter-segment	88	253	-	0	-	(341)	-
Total revenue	<u>14,359</u>	<u>4,218</u>	<u>7,823</u>	<u>7,642</u>	<u>-</u>	<u>(341)</u>	<u>33,701</u>
Results							
- Segment results	1,311	902	(4,059)	(474)	(38)		(2,358)
- Finance cost	(1,743)	(3)	(868)	(329)	-		(2,943)
Loss before taxation							(5,301)
- Taxation							(1,177)
Loss after taxation							(6,478)
Minority interest							8
Loss for the period attributable to equity holders of the Company							<u>(6,470)</u>



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

A7 Segmental Information (Cont'd)

**UNAUDITED RESULTS
FOR 6-MONTH PERIOD
ENDED 30.6.2008**

	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
Revenue							
- External	15,453	2,456	7,500	13,601	-	-	39,010
- Inter-segment	207	398	-	-	-	(605)	-
Total revenue	<u>15,660</u>	<u>2,854</u>	<u>7,500</u>	<u>13,601</u>	<u>-</u>	<u>(605)</u>	<u>39,010</u>
Results							
- Segment results	2,135	722	2,089	1,525	(10)	340	6,801
- Finance cost	(2,500)	(3)	(1,437)	(377)	-	-	(4,317)
Profit before taxation							2,484
- Taxation							(654)
Profit after taxation							1,830
Minority interest							(298)
Profit for the period attributable to equity holders of the Company							<u>1,532</u>

**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 period ended 30 June 2009.

On 6 November 2009, a wholly owned subsidiary, Samudra Timur Sdn Bhd has entered into a Sale and Purchase Agreement ("the Agreement") to dispose one (1) unit of five (5) storey office and shop for a total disposal consideration of RM3.0 million ("the Disposal"). The Disposal is subject to the terms and conditions as set out in the Agreement and the estimated Group's gain on disposal of the said property is approximately RM1.1. million.

The Disposal was announced by the Company on 9 November 2009.

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 2009 up to 24 February 2010 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 as well as the deregistration of a wholly owned subsidiary, KST Fluids Technologies (M) Ltd ("KSTFTML") from the Register under Section 308 of the Companies Act, 2001 of the Republic of Mauritius with effect from 21 January 2010. KSTFTML has been dormant since its incorporation.

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 divestment of the 49% equity interest in Sobena Offshore Inc. Sdn. Bhd. ("Sobena") for a total cash consideration of RM9,996,000-00 as further mentioned in paragraph B8 (b) below. The aforesaid divestment resulted in Sobena becoming a 51% owned subsidiary company of the Company.

A12 Changes in Contingent Liabilities and Contingent Assets

	As at 31 Dec 2009 Unaudited RM'000	As at 30 June 2009 Audited RM'000
<u>Unsecured</u>		
a) Bank guarantees in favour of third parties	3,308	3,431
<u>Secured</u>		
b) Corporate guarantees given by the Company to financial institutions for credit facilities granted to a jointly controlled entity	-	-

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

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



A13 Capital Commitments

	As at 31 Dec 2009 Unaudited RM'000	As at 30 June 2009 Audited RM'000
Approved, contracted but unpaid costs for the purchase of machineries and equipment:		
- for the Oil Country Tubular Goods end-finishing business	1,034	73
- for the tubular handling business	539	94
- for drilling services	-	1,894
	1,573	2,061

A14 Related Party Transactions

	3 months ended		6 months ended	
	31 Dec 2009 Unaudited RM'000	30 June 2008 Unaudited RM'000	31 Dec 2009 Unaudited RM'000	30 June 2008 Unaudited RM'000
Transactions with companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	153	117	295	282
b) IT related services	3	-	4	-
c) Transportation, freight and handling services	174	-	577	-
d) Interest payable to a director	50	60	99	131
	577	177	975	413

Interest payable to a director is in respect of the advances amounted to RM3,400,000 (30 June 2008: RM3,000,000) 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 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 not more favourable to the related parties.

A15 Investment in Jointly Controlled Entities

	As at 31 Dec 2009 Unaudited RM'000	As at 30 June 2009 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 post-acquisition reserves	(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 2009	30 June 2009
			%	%
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 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 commenced on 19 May 2009 and is still in progress as at end of the current financial period.

A16 Other Investments

	As at 31 Dec 2009 Unaudited RM'000	As at 30 June 2009 Audited RM'000
Unquoted shares at cost	60	60
Subordinated bonds	3,000	3,000
	3,060	3,060
Less: Accumulated impairment loss	(402)	(402)
	<u>2,658</u>	<u>2,658</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 26 January 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 RM17.46 million with a gross profit of RM2.21 million. The Group's performance was affected by the continuous slow down in demand for its pipes threading services and tubular handling services. The reduced revenue, a result of the aforesaid lower demand was further weighed down by maintenance and upkeeping costs as well as cost associated with commissioning of an onshore rig. The Land Drilling Rig operation continued to be fueled by the drilling activities of its onshore rig in the southern region of Sumatra Indonesia.

The aforesaid factors have resulted in the Group chalking up a loss for the period of approximately RM2.69 million as compared to a profit position of RM0.53 million recorded in the corresponding financial quarter.

For the current financial quarter, the Group's net loss attributable to equity holders of the parent stood at RM2.70 million.

B2 Variation of Results Against Preceding Quarter

The Group's revenue of RM17.46 million for the current financial quarter under review is higher than that of the preceding financial quarter - by approximately 7.5% over the Group's revenue of the preceding financial quarter. This was mainly attributable to higher revenue recorded by the Pipe Inspection and Maintenance operation, Pipe Threading operation and Land Drilling Rig operation of the Group.

The aforesaid improved revenue coupled with a better overall gross profit margin during the financial quarter under review have led to a lower Group's loss for the period of approximately RM2.69 million as compared to a Group's loss for the period of RM3.79 million recorded in the preceding financial quarter.

Loss attributable to equity holders of the parent for the current financial quarter under review was lower at RM2.70 million when compared to that of RM3.77 million chalked up in the preceding financial quarter.

B3 Prospects for Financial Year ending 30 June 2010 (Financial Year 2010)

Against the backdrop of an improving global economic condition as well as positive indications that the world economy has seen the worst, the Board of Directors ("Board") is hopeful of an improvement in the oil exploration activities which are directly related to the Group's operations.

The Group will continue its vigorous efforts to maintain as well as source for new contracts and businesses for its core operations (in particular its land rig services) for both local and overseas markets. For the remain period of the current Financial Year 2010, the Group will continue to focus on the enhancement and consolidation of all its existing core businesses and with cautious view on possible expansion into other oil producing countries.

B4 Variance from Profit Forecast and Profit Guarantee

This is not applicable to the Group.

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**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		6 months ended	
	31 Dec 2009	30 June 2008	31 Dec 2009	30 June 2008
	Unaudited	Unaudited	Unaudited	Unaudited
	RM'000	RM'000	RM'000	RM'000
Taxation based on results				
Malaysian taxation				
- Current financial period	649	64	1,166	374
Foreign Taxation	-	145	-	280
Deferred taxation	11	-	11	-
	<u>660</u>	<u>209</u>	<u>1,177</u>	<u>654</u>

Domestic income tax is calculated at the Malaysian Statutory tax rate of 25% (30.6.2009: 25%) 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 other than the completion of the divestment of 49% equity interest in Sobena for a total cash consideration of RM9,996,000-00 as mentioned in paragraph A11 on Changes in Composition of the Group and the disposal of a one (1) unit of five (5) storey office and shop for a total disposal consideration of RM3.0 million, the completion of which is subject to the terms and conditions as set out in the Agreement as mentioned in paragraph A9 on Property Plant and Equipment .

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) Proposed Disposal of 49% Equity Interest in Sobena Offshore Inc Sdn Bhd

The Company has on 13 July 2009, entered into a conditional Sale and Purchase of Shares Agreement ("SPA") with Marubeni-Itochu Tubulars Asia Pte Ltd ("MITA") and Hendroff Holdings Sdn. Bhd. ("Hendroff") to dispose to MITA and Hendroff a total of 4,165,000 ordinary shares of RM1-00 each equivalent to 49% of the total issued and paid-up share capital of Sobena Offshore Inc. Sdn. Bhd. ("Sobena") for a total cash consideration of RM9,996,000-00. The proposed disposal was approved by the Ministry of International Trade and Industry ("MITI") on 9 September 2009. The proposed disposal was effectively completed pursuant to the SPA on 21 October 2009.

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 September 2009, 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 the 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.

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 (Prior to the change of Listing Requirement which was effective from 3 August 2009). 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 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. Due to the uncondusive market condition, the Proposals were not implemented and the Company has in two different occasions obtained the SC's approvals for extension of time to implement the Proposed Rights Issue. The latest approval was obtained from the SC on 7 September 2009 for an additional six (6) months up to 2 March 2010. The Company has on 4 February 2010 submitted an application for a further extension of time of six (6) months up to 2 September 2010 to implement and complete the Proposed Rights Issue. The approval from the SC is pending.

The Company has on 2 November 2009 submitted an application to the High Court of Malaya ("High Court") to reduce the Company's paid-up share capital pursuant to Section 64 of the Companies Act, 1965. On 10 December 2009, the High Court granted an order confirming the Proposed Capital Reduction and the sealed order of the High Court was lodged with the Registrar of Companies on 8 January 2010. Accordingly, the Proposed Capital Reduction was effected on 8 January 2010 as announced by the Company to Bursa on 8 January 2010.

The Bursa has also on 6 January 2010 approved-in-principle the listing of up to 63,888,000 Rights Shares to be issued pursuant to the Proposed Rights Issue subject to, amongst others the following:-

- (i) the Company and its adviser must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Rights Issue;

**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) the Company and its adviser to inform Bursa upon the completion of the Proposed Rights Issue; and
- (iii) the Company to furnish Bursa with a written confirmation of its compliance with the terms and conditions of Bursa's approval once the Proposed Rights Issue is completed.

B9 Group Borrowings and Debt Securities

	As at 31 Dec 2009 Unaudited RM'000	As at 30 June 2009 Audited RM'000
a) Short term borrowings		
Repayable within twelve months		
- Secured	25,076	14,095
- Unsecured	25,690	30,587
	50,766	44,682
b) Long term borrowings		
Repayable after twelve months		
- Secured	23,810	31,937
- Unsecured	31,516	31,724
Portion repayable after one year	55,326	63,661
 Borrowings denominated in foreign currency:		
United States Dollars (USD'000)	16,182	15,047
Ringgit Malaysia equivalent (RM'000)	55,414	53,003

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 24 February 2010.

B11 Changes in Material Litigation

Subsequent to the terminations mentioned in Note A15, 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. This was challenged by Gagie through the Suit elaborated below.

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.

**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)

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 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:

- 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.

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



B13 (Loss) / Earnings Per Share

Basic (loss) / earnings per share is calculated by dividing (loss) / profit 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		6 months ended	
	31 Dec 2009 Unaudited	30 June 2008 Unaudited	31 Dec 2009 Unaudited	30 June 2008 Unaudited
- (Loss) / Profit attributable to equity holders of the parent (RM'000)	(2,698)	443	(6,470)	1,532
- Weighted average number of ordinary shares in issue ('000)	106,480	100,026	106,480	98,413
Basic (loss)/earnings per share (sen)	<u>(2.53)</u>	<u>0.44</u>	<u>(6.08)</u>	<u>1.56</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
24 February 2010