



KEJURUTERAAN SAMUDRA TIMUR BERHAD

**Interim Financial Report for
4th Quarter Ended 30th June 2010
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 30 JUNE 2010**

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIODS ENDED 30 JUNE 2010 AND 31 DECEMBER 2008**

	Note	Fourth Quarter ended		Cumulative Twelve Months ended	
		30 June 2010	31 December 2008	30 June 2010	31 December 2008
		Audited RM'000	Unaudited RM'000	Audited RM'000	Unaudited RM'000
Continuing Operations					
Revenue		12,423	16,144	60,041	72,314
Cost of sales		(13,335)	(12,234)	(56,401)	(50,497)
Gross profit		(912)	3,910	3,640	21,817
Other income		94	33	307	159
Administrative expenses		(3,528)	(547)	(8,055)	(5,158)
Operating expenses		(1,390)	(2,491)	(5,454)	(7,728)
Finance cost		(1,422)	(2,001)	(5,672)	(8,145)
(Loss) / Profit before taxation		(7,158)	(1,096)	(15,234)	945
Income tax expense	B5	3,184	(2,072)	2,185	(3,404)
Loss for the period		(3,974)	(3,168)	(13,049)	(2,459)
Attributable to:					
Equity holders of the parent		(5,094)	(2,960)	(13,714)	(2,660)
Minority interest		1,120	(208)	665	201
		(3,974)	(3,168)	(13,049)	(2,459)
Loss Per Share (sen)	B13				
Basic		(4.78)	(2.78)	(12.88)	(2.60)
Fully diluted		N/A	N/A	N/A	N/A

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 30 JUNE 2010 AND 30 JUNE 2009**



		As at 30 June 2010 Audited RM'000	As at 30 June 2009 Audited RM'000
ASSETS	Note		
Non-current assets			
Property, plant and equipment	A9	130,100	142,588
Prepaid lease payments		-	1,464
Goodwill on consolidation		5,242	10,278
Investment in jointly controlled entities	A15	-	-
Other investments	A16	381	2,658
		<u>135,723</u>	<u>156,988</u>
Current assets			
Inventories		4,816	4,044
Assets for sale	A9	1,867	-
Trade receivables		10,140	13,918
Other receivables		9,667	9,422
Tax recoverable		1,525	558
Cash and bank balances (including fixed deposits)		1,906	1,613
		<u>29,921</u>	<u>29,555</u>
TOTAL ASSETS		<u>165,644</u>	<u>186,543</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	A6	31,944	53,240
Share premium		9,283	9,283
Other reserves		3,816	2,872
Accumulated losses		(15,901)	(23,483)
		<u>29,142</u>	<u>41,912</u>
Minority interest		6,749	1,343
Total equity		<u>35,891</u>	<u>43,255</u>
Non-current liabilities			
Bank borrowings	B9	64,188	63,661
Deferred tax liabilities		3,758	6,586
		<u>67,946</u>	<u>70,247</u>
Current liabilities			
Trade payables		8,020	5,629
Other payables		23,197	21,321
Bank borrowings	B9	30,303	44,682
Tax payable		287	1,409
		<u>61,807</u>	<u>73,041</u>
Total liabilities		<u>129,753</u>	<u>143,288</u>
TOTAL EQUITY AND LIABILITIES		<u>165,644</u>	<u>186,543</u>

(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 12 MONTH FINANCIAL PERIOD ENDED 30 JUNE 2010**



Note	← Attributable to equity holders of the parent →						Total	Minority interest ("MI")	Total equity
	Share Capital	Share Premium	Revaluation Reserve	Foreign Exchange Reserve	Distributable Retained Earnings/ (Accumulated Losses)	RCPS*			
	RM'000	RM'000	RM'000	RM'000	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	1,055	51,926
Issue of shares - Placement	4,840	-	-	-	-	-	4,840	-	4,840
Redeemed of RCPS *	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	(252)	-	-	(252)	74	(178)
Net loss for the period	-	-	-	-	(13,547)	-	(13,547)	214	(13,333)
At 30 June 2009 (Audited)	53,240	9,283	4,468	(1,596)	(23,483)	-	41,912	1,343	43,255
At 1 July 2009	53,240	9,283	4,468	(1,596)	(23,483)	-	41,912	1,343	43,255
Capital Reduction and Set-Off	(21,296)	-	-	-	21,296	-	-	-	-
MI from divestment in Subsidiary	-	-	-	-	-	-	-	4,760	4,760
Foreign currency translation	-	-	-	944	-	-	944	(19)	925
Net loss for the period	-	-	-	-	(13,714)	-	(13,714)	665	(13,049)
At 30 June 2010 (Audited)	31,944	9,283	4,468	(652)	(15,901)	-	29,142	6,749	35,891

* - 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 12 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2008**



Note	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		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2007									
As previously stated	48,400	9,283	4,438	(521)	5,778	-	67,378	189	67,567
Effect of adopting FRS 112	-	-	-	-	244	-	244	-	244
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	-	-	-	1,765	-	-	1,765	57	1,822
Net profit for the period	-	-	-	-	(2,660)	-	(2,660)	201	(2,459)
At 31 December 2008 (Unaudited)	53,240	9,283	4,468	421	(12,596)	-	54,816	1,313	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 period ended 30 June 2009 and the accompanying explanatory notes attached to the interim financial statements.)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE 12 MONTH FINANCIAL PERIOD ENDED 30 JUNE AND 31 DECEMBER**



	12 months ended	
	30 June 2010 Audited RM'000	31 December 2008 Unaudited RM'000
Cash Flows From Operating Activities		
(Loss) / Profit before taxation	(15,234)	945
Adjustments for non-cash and non-operating items:		
- Non-cash items	21,309	15,047
- Investing and financing items	5,143	7,674
Operating profit before changes in working capital	11,218	23,666
Changes in working capital:		
- Changes in current assets	2,761	12,016
- Changes in current liabilities	4,088	(7,360)
Interest paid	(5,455)	(7,881)
Interest received	21	137
Net change in taxation	(2,732)	(2,774)
Net cash generated from operating activities	9,901	17,804
Net cash generated from investing activities	3,318	110
Net cash used in financing activities	(11,779)	(14,791)
Net Change in Cash and Cash Equivalents	1,440	3,123
Cash and Cash Equivalents at Beginning of Period	(9,916)	(9,334)
Effects of exchange rate changes	927	(2,054)
Cash and Cash Equivalents at End of Period	(7,549)	(8,265)
Analysis of Cash and Cash Equivalents:		
Cash and bank balances	1,557	3,223
Deposits with licensed financial institutions	349	511
Bank overdrafts	(9,455)	(11,999)
Cash and Cash Equivalents	(7,549)	(8,265)

(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 12-MONTH PERIOD ENDED 30.6.2010	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
I) <u>BUSINESS SEGMENT</u>							
Revenue							
- External	25,884	8,326	10,010	15,821	-	-	60,041
- Inter-segment	119	437	-	1	-	(557)	-
Total revenue	<u>26,003</u>	<u>8,763</u>	<u>10,010</u>	<u>15,822</u>	<u>-</u>	<u>(557)</u>	<u>60,041</u>
Results							
- Segment results	(855)	1,912	(11,018)	403	(4)		(9,562)
- Finance cost	(3,464)	(10)	(1,671)	(527)	-		<u>(5,672)</u>
Loss before taxation							(15,234)
- Taxation							<u>2,185</u>
Loss after taxation							(13,049)
Minority interest							<u>(665)</u>
Loss for the period attributable to equity holders of the Company							<u><u>(13,714)</u></u>

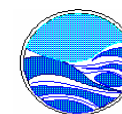
PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)



A7 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 12-MONTH PERIOD ENDED 30.6.2010	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
II) <u>GEOGRAPHICAL SEGMENT</u>							
Revenue from External Customers							
- Malaysia	25,884	8,326	-	15,821	-	-	50,031
- Indonesia	-	-	10,010	-	-	-	10,010
Total revenue	<u>25,884</u>	<u>8,326</u>	<u>10,010</u>	<u>15,821</u>	<u>-</u>	<u>-</u>	<u>60,041</u>
Non-current Assets							
- Malaysia	39,163	1,059	-	16,233	90	-	56,545
- Indonesia	-	-	79,178	-	-	-	79,178
	<u>39,163</u>	<u>1,059</u>	<u>79,178</u>	<u>16,233</u>	<u>90</u>	<u>-</u>	<u>135,723</u>
III) <u>INFORMATION ON MAJOR EXTERNAL CUSTOMERS</u>							
Contribute equal or > 10% of revenue for each business segment							
- Single largest customer	20,999	1,724	10,010	12,389	-		
- 2nd largest customer	-	1,692	-	-	-		
- 3rd largest customer	-	1,169	-	-	-		

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



A7 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR 12-MONTH PERIOD ENDED 31.12.2008	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	34,415	5,091	7,820	24,988	-	-	72,314
- Inter-segment	397	699	-	-	-	(1,096)	-
Total revenue	<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>
Results							
- Segment results	6,503	1,187	(1,060)	2,651	(191)	-	9,090
- Finance cost	(4,575)	(3)	(2,787)	(780)	-	-	<u>(8,145)</u>
Profit before taxation							945
- Taxation							<u>(3,404)</u>
Loss after taxation							(2,459)
Minority interest							<u>(201)</u>
Loss for the period attributable to equity holders of the Company							<u><u>(2,660)</u></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 was completed in July 2010 (subsequent to the financial period under review) upon the receipt of the balance sale proceeds from the purchaser.

Accordingly the book value of the property designated for the Disposal has been reflected as Assets for Sale as at end of the financial period under review.

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 30 June 2010 up to 30 August 2010 other than as disclosed in Note A9 on Property, Plant and Equipment, 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 incorporation of a new wholly owned subsidiary, Samudra Oil Services Sdn Bhd ("SOSSB") with an issued and paid-up share capital of RM100,000. The intended principal activities of SOSSB are the provision of tubular handling and running services; tubular inspection and maintenance services; and supply, leasing and operating of oil rigs.

A12 Changes in Contingent Liabilities and Contingent Assets

	As at 30 June 2010 Audited RM'000	As at 30 June 2009 Audited RM'000
<u>Unsecured</u>		
a) Bank guarantees in favour of third parties	3,341	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.

**A13 Capital Commitments**

	As at 30 June 2010 Audited 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	14	73
- for the tubular handling business	528	94
- for drilling services	-	1,894
	<u>542</u>	<u>2,061</u>

A14 Related Party Transactions

	3 months ended		12 months ended	
	30 June 2010	31 Dec 2008	30 June 2010	31 Dec 2008
	Audited	Unaudited	Audited	Unaudited
	RM'000	RM'000	RM'000	RM'000
Transactions with companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	70	137	498	559
b) IT related services	2	-	29	-
c) Transportation, freight and handling services	90	-	691	-
d) Interest payable to a director	62	34	217	225
	<u>62</u>	<u>34</u>	<u>217</u>	<u>225</u>

Interest payable to a director is in respect of the advances amounted to RM3,583,000 (31 December 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 30 June 2010.

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 30 June 2010 Audited RM'000	As at 30 June 2009 Audited RM'000
Unquoted shares at cost	440	440
Net amount due from jointly controlled entities	<u>23,083</u>	<u>23,083</u>
	23,523	23,523
Share of post-acquisition reserves	<u>(23,523)</u>	<u>(23,523)</u>
	<u>-</u>	<u>-</u>

**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	
			30 June 2010	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 which commenced on 19 May 2009 has been completed and is currently pending delivery of arbitration judgement by the arbitrator.

A16 Other Investments

	As at 30 June 2010 Audited RM'000	As at 30 June 2009 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	(2,679)	(402)
	<u>381</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 RM12.42 million with a gross loss of RM0.91 million. The Group's performance continued to be affected by the continuous slow down in demand for its pipes threading services and tubular handling services during the current financial year. Both of these services recorded a combined drop in revenue by approximately 29% when compared to the revenue chalked up in the corresponding financial quarter. The Group's land drilling rigs were on warm stack and maintenance services during the current financial quarter and are targeted to be mobilised for new drilling projects expected in the last quarter of the calendar year 2010.

The aforesaid factors together with an impairment charge on other investment of RM2.28 million have resulted in the Group chalking up higher loss before taxation for the current financial period of approximately RM7.16 million as compared to approximately RM1.10 million recorded in the corresponding financial quarter. The Group recorded a net loss for the period of RM3.97 million following the recognition of additional deferred tax asset and reversal of deferred tax liabilities for certain units of the Group during the current financial period.

B2 Variation of Results Against Preceding Quarter

The Group's revenue of RM12.42 million for the current financial quarter under review is lower than that of the preceding financial quarter - by approximately 11% over the Group's revenue of the preceding financial quarter. This was mainly attributable to reduced revenue recorded by the tubular handling services while the Group's land drilling rigs were on warm stack and maintenance services following the completion of the drilling project in Southern Sumatra Indonesia in the preceding financial quarter.

The aforesaid factors have translated into a gross loss position for the Group of RM0.91 million. The results of the Group was further weighed down by an impairment charge on other investment of RM2.28 million during the current financial period. Consequently, the Group turned in a loss before taxation of RM7.16 million, an increase of approximately RM4.38 million when compared to the loss before taxation of the preceding quarter. Nonetheless, the Group chalked up a lower loss attributable to equity holders of the parent for the current financial period of RM5.09 million due principally to recognition of additional deferred tax asset and adjustment for reversal of deferred tax liabilities.

B3 Prospects for Financial Year ending 30 June 2011 (Financial Year 2011)

Against the backdrop of an improving global economic, 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 next Financial Year 2011, 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.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

**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	
	30 June 2010 Audited RM'000	31 Dec 2008 Unaudited RM'000	30 June 2010 Audited RM'000	31 Dec 2008 Unaudited RM'000
Taxation based on results				
Malaysian taxation				
- Current financial period	361	1,544	1,318	2,592
- (Over)/Under provision in the previous years	(707)	518	(676)	518
Foreign Taxation	-	10	-	294
Deferred taxation	(2,838)	-	(2,827)	-
	<u>(3,184)</u>	<u>2,072</u>	<u>(2,185)</u>	<u>3,404</u>

Domestic income tax is calculated at the Malaysian Statutory tax rate of 25% (31.12.2008: 26%) 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) 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") ("Capital Reduction");
- (ii) Proposed set off of credit arising from the Proposed Capital Reduction against the accumulated losses of the Company ("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 ("Rights Issue");



B8 Status of Corporate Proposal Announced (Cont'd)

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

- (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 ("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 ("M&A Amendments").

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

The Capital Restructuring and the M&A Amendments were completed in January 2010 with the 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 Capital Reduction of RM21,296,000 was used to set off against the accumulated losses of the Company.

The Company has determined a minimum subscription level of 33,333,333 Rights Shares ("Minimum Subscription Level") for the 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 Requirements which was effective from 3 August 2009).

The Company has on 13 July 2010 announced that the issue price of the Right Shares has been fixed at RM0.30 per Right Share while the Entitlement Date has been fixed at 5.00 p.m. on 27 July 2010. The Abridged Prospectus was despatched on 28 July 2010 with the last date of acceptance of the provisional allotment and excess Rights Shares application on 11 August 2010.

At the close of acceptance and payment of the Rights Issue at 5.00 p.m. on 11 August 2010, the total acceptance and excess applications received for the Rights Issue was for 36,546,500 Rights Shares. This represents a subscription level of 57.20% of the 63,888,000 Rights Shares available for acceptance under the Rights Issue, which has met the Minimum Subscription Level. The Rights Shares were listed on the Main Market of the Bursa on 23 August 2010.

Accordingly, the effects of the Rights Issue will only be reflected in the subsequent financial quarter being the first financial quarter for the financial year ending 30 June 2011.

The gross Rights Issue proceeds raised from the Rights Issue exercise is amounted to RM10,963,950 which is to be utilised in the manners as set out in the Abridged Prospectus dated 27 July 2010.

**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 30 June 2010 Audited RM'000	As at 30 June 2009 Audited RM'000
a) Short term borrowings		
Repayable within twelve months		
- Secured	20,498	14,095
- Unsecured	9,805	30,587
	<u>30,303</u>	<u>44,682</u>
b) Long term borrowings		
Repayable after twelve months		
- Secured	33,831	31,937
- Unsecured	30,357	31,724
Portion repayable after one year	<u>64,188</u>	<u>63,661</u>
Borrowings denominated in foreign currency:		
United States Dollars (USD'000)	15,807	15,047
Ringgit Malaysia equivalent (RM'000)	<u>51,737</u>	<u>53,003</u>

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 30 August 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.

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.



B11 Changes in Material Litigation (Cont'd)

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 it is not possible to predict the outcome of the litigation. The lawyers are of the view that even if the Plaintiffs were to succeed in their claims or some of their claims, the damages would not be material. Accordingly, no provision has been made in respect of the claims of damages by Gagie in the financial statements.

B12 Dividend

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

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]



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	
	30 June 2010	31 Dec 2008	30 June 2010	31 Dec 2008
	Audited	Unaudited	Audited	Unaudited
- Loss attributable to equity holders of the parent (RM'000)	(5,094)	(2,960)	(13,714)	(2,660)
- Weighted average number of ordinary shares in issue ('000)	106,480	106,480	106,480	102,447
Basic loss per share (sen)	<u>(4.78)</u>	<u>(2.78)</u>	<u>(12.88)</u>	<u>(2.60)</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
30 August 2010