



KEJURUTERAAN SAMUDRA TIMUR BERHAD

**Interim Financial Report for
1st Quarter Ended 30th September 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
FIRST FINANCIAL QUARTER ENDED 30 SEPTEMBER 2010**

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIODS ENDED 30 SEPTEMBER 2010 AND 2009**

	Note	First Quarter ended		Cumulative Three Months ended	
		30 September 2010	30 September 2009	30 September 2010	30 September 2009
		Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Continuing Operations					
Revenue		14,592	16,243	14,592	16,243
Cost of sales		(14,428)	(15,010)	(14,428)	(15,010)
Gross profit		<u>164</u>	<u>1,233</u>	<u>164</u>	<u>1,233</u>
Other income		1,193	66	1,193	66
Administrative expenses		(1,368)	(1,513)	(1,368)	(1,513)
Operating expenses		(1,401)	(1,570)	(1,401)	(1,570)
Finance cost		(1,277)	(1,486)	(1,277)	(1,486)
Loss before taxation		<u>(2,689)</u>	<u>(3,270)</u>	<u>(2,689)</u>	<u>(3,270)</u>
Income tax expense	B5	(458)	(517)	(458)	(517)
Loss for the period		<u>(3,147)</u>	<u>(3,787)</u>	<u>(3,147)</u>	<u>(3,787)</u>
Attributable to:					
Equity holders of the Company		(3,046)	(3,772)	(3,046)	(3,772)
Minority interest		(101)	(15)	(101)	(15)
		<u>(3,147)</u>	<u>(3,787)</u>	<u>(3,147)</u>	<u>(3,787)</u>
Loss Per Share (sen)					
Basic	B13	<u>(2.50)</u>	<u>(3.54)</u>	<u>(2.50)</u>	<u>(3.54)</u>
Fully diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

N/A - Not Applicable

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME FOR THE FINANCIAL PERIODS ENDED 30 SEPTEMBER 2010 AND 2009



	First Quarter ended 30 September 2010	30 September 2009	Cumulative Three Months ended 30 September 2010	30 September 2009
	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Loss for the period	(3,147)	(3,787)	(3,147)	(3,787)
Other Comprehensive Income:				
Currency translation differences	822	230	822	230
Total other comprehensive income	<u>822</u>	<u>230</u>	<u>822</u>	<u>230</u>
Total comprehensive loss	<u>(2,325)</u>	<u>(3,557)</u>	<u>(2,325)</u>	<u>(3,557)</u>
Attributable to:				
Equity holders of the Company	(2,160)	(3,608)	(2,160)	(3,608)
Minority interest	(165)	51	(165)	51
	<u>(2,325)</u>	<u>(3,557)</u>	<u>(2,325)</u>	<u>(3,557)</u>

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2010 AND 30 JUNE 2010



ASSETS	Note	As at 30 September 2010 Unaudited RM'000	As at 30 June 2010 Audited RM'000
Non-current assets			
Property, plant and equipment	A10	123,803	130,100
Investment in jointly controlled entities	A16	-	-
Other investments	A17	381	381
Goodwill on consolidation		5,242	5,242
		<u>129,426</u>	<u>135,723</u>
Current assets			
Inventories		4,805	4,816
Trade receivables		15,782	10,139
Other receivables		6,132	9,667
Tax recoverable		1,534	1,525
Cash and bank balances (including fixed deposits)		3,637	1,906
		<u>31,890</u>	<u>28,053</u>
Non-current assets held for sale	A10	-	1,867
		<u>31,890</u>	<u>29,920</u>
TOTAL ASSETS		<u>161,316</u>	<u>165,643</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	A7	42,908	31,944
Share premium		8,412	9,283
Other reserves		4,702	3,816
Accumulated losses		(19,831)	(15,902)
		<u>36,191</u>	<u>29,141</u>
Minority interest		6,584	6,749
Total equity		<u>42,775</u>	<u>35,890</u>
Non-current liabilities			
Bank borrowings	B9	61,820	64,188
Deferred tax liabilities		3,406	3,758
		<u>65,226</u>	<u>67,946</u>
Current liabilities			
Trade payables		7,723	8,020
Other payables		16,691	23,197
Bank borrowings	B9	28,563	30,303
Tax payable		338	287
		<u>53,315</u>	<u>61,807</u>
Total liabilities		<u>118,541</u>	<u>129,753</u>
TOTAL EQUITY AND LIABILITIES		<u>161,316</u>	<u>165,643</u>
NET ASSETS PER SHARE (SEN)		<u>25.3</u>	<u>27.4</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2010**



	Attributable to equity holders of the Company					Minority interest	Total equity	
	← Non-distributable →			Distributable				
	Share Capital RM'000	Share Premium RM'000	Revaluation Reserve RM'000	Exchange Translation Reserve RM'000	Accumulated Losses RM'000	Total RM'000	RM'000	
At 1 July 2010	31,944	9,283	4,468	(652)	(15,902)	29,141	6,749	35,890
Effect arising from adoption FRS 139	-	-	-	-	(883)	(883)	-	(883)
At 1 July 2010 (restated)	31,944	9,283	4,468	(652)	(16,785)	28,258	6,749	35,007
Loss for the period	-	-	-	-	(3,046)	(3,046)	(101)	(3,147)
Other comprehensive income / (loss)	-	-	-	886	-	886	(64)	822
Total comprehensive loss for the period	-	-	-	886	(3,046)	(2,160)	(165)	(2,325)
Transactions with owners in their capacity as owners:								
Issuance of new ordinary shares pursuant to the rights issue	10,964	-	-	-	-	10,964	-	10,964
Corporate exercise expenses for capital reduction and rights issue	-	(871)	-	-	-	(871)	-	(871)
Total transactions with owners	10,964	(871)	-	-	-	10,093	-	10,093
At 30 September 2010 (Unaudited)	42,908	8,412	4,468	234	(19,831)	36,191	6,584	42,775

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2009**



	Attributable to equity holders of the Company					Minority interest	Total equity	
	Non-distributable			Distributable				
	Share Capital	Share Premium	Revaluation Reserve	Exchange Translation Reserve	Accumulated Losses	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 July 2009	53,240	9,283	4,468	(1,596)	(23,483)	41,912	1,343	43,255
Loss for the period	-	-	-	-	(3,772)	(3,772)	(15)	(3,787)
Other comprehensive income	-	-	-	164	-	164	66	230
Total comprehensive loss for the period	-	-	-	164	(3,772)	(3,608)	51	(3,557)
Transactions with owners in their capacity as owners:	-	-	-	-	-	-	-	-
At 30 September 2009 (Unaudited)	53,240	9,283	4,468	(1,432)	(27,255)	38,304	1,394	39,698

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER**



	3 months ended	
	30 September 2010	30 September 2009
	Unaudited RM'000	Unaudited RM'000
Cash Flows From Operating Activities		
Loss before taxation	(2,689)	(3,270)
Adjustments for non-cash and non-operating items:		
- Non-cash items	4,797	4,659
- Investing and financing items	(45)	1,472
Operating profit before changes in working capital	2,063	2,861
Changes in working capital:		
- Changes in current assets	(2,097)	1,245
- Changes in current liabilities	(7,042)	(533)
Interest paid	(1,029)	(1,437)
Interest received	4	5
Net change in taxation	(416)	(686)
Net cash (used in) / generated from operating activities	(8,517)	1,455
Net cash generated from / (used in) investing activities	3,733	(5,227)
Net cash generated in financing activities	6,474	2,684
Net Change in Cash and Cash Equivalents	1,690	(1,088)
Cash and Cash Equivalents at Beginning of Period	(7,549)	(9,916)
Effects of exchange rate changes	1,413	1,267
Cash and Cash Equivalents at End of Period	(4,446)	(9,737)
Analysis of Cash and Cash Equivalents:		
Cash and bank balances	3,459	2,242
Deposits with licensed financial institutions	178	501
Bank overdrafts	(8,083)	(12,480)
Cash and Cash Equivalents	(4,446)	(9,737)



A1 Basis of Preparation

The interim financial statements have been prepared on a going concern basis and 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 30 June 2010 and the accompanying explanatory notes. These explanatory notes 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 2010.

A2 Changes in accounting policies arising from the adoption of new/revised Financial Reporting Standards ("FRS")

The significant accounting policies adopted are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2010 except for the adoption of new standards, amendments to standards and IC interpretations that are mandatory to the Group for the financial year beginning 1 January 2010. The adoption of these standards, amendments and interpretations do not have a material impact on the interim financial information of the Group except for the adoption of the following standards as set out below:

(a) FRS 101 : Presentation of Financial Statements (revised)

The Group has adopted the revised FRS 101 separates owner and non-owner changes in equity. As a result, the income statement of the Group for the financial period ended 30 September 2010 have been represented as two separate statements, ie. an income statement displaying components of profit or loss and a statement of comprehensive income. Therefore, the statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. This revised FRS does not have any impact on the financial position and results of the Group and the Company.

(b) FRS 139 : Financial Instruments: Recognition and Measurement and Amendments to FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 sets out the new requirements for the recognition and measurement of the Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the balance sheet date reflects the designation of the financial instruments. The Group determines the classification at initial recognition and for the purpose of the first adoption of the standard, as at transitional date on 1 January 2010.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

(i) Fair value through profit or loss

Prior to 1 January 2010, financial assets are stated at cost less impairment loss. Upon the adoption of FRS 139, these financial assets are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss.

(ii) Held for maturity

Prior to 1 January 2010, held to maturity investments were stated at cost less impairment loss. Under FRS 139, held to maturity investments are initially measured at fair value and subsequently at amortised cost using the effective interest rate (EIR) method. Gains and losses arising from the derecognition of the held to maturity investments, EIR amortisation and impairment losses are recognised in the profit or loss.



A2 Changes in accounting policies arising from the adoption of new/revised Financial Reporting Standards ("FRS") (Cont'd)

(iii) Loan and receivables

Prior to 1 January 2010, loans and receivables were stated at gross receivables less provision for doubtful debts. Under FRS 139, loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate (EIR) method. Gains and losses arising from the derecognition of the loans and receivables, EIR amortisation and impairment losses are recognised in the profit or loss.

(iv) Available for Sale (AFS)

Available for sale (AFS) are financial assets that are designated as available for sale or are not classified in any of the three preceding categories. Prior to 1 January 2010, AFS financial assets were accounted for at cost less impairment loss. Under FRS 139, AFS financial asset is measured at fair value initially and subsequently with unrealised gains or losses recognised as other comprehensive income in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the profit or loss and removed from the AFS reserve. With the exception to the above are equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are still measured at cost less impairment loss until such time, if ever, that a reliable fair value becomes available.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or derivatives designated as hedging instruments in an effective hedge, as appropriate.

Impact on opening balances

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 30 June 2010 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the balance sheet as at 1 July 2010. The details of the changes in accounting policies and the effects arising from the adoption of FRS 139 are as below:

	Previously stated RM'000	Effect of FRS 139 RM'000	As restated RM'000
<u>Liabilities</u>			
Borrowings	94,491	883	95,374
<u>Equity</u>			
Accumulated losses	(15,902)	(883)	(16,785)

A3 Auditors' Report on Preceding Annual Financial Statements

The Auditors' Report of the financial statements for the financial period ended 30 June 2010 was not qualified.

A4 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)



A5 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.

A6 Changes in Accounting Estimates

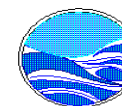
During the financial period under review, there was no change in accounting estimates adopted by the Group.

A7 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 other than the issuance of 36,546,500 new ordinary shares of RM0.30 each in the Company pursuant to the Rights Issue which was completed during the period under review as elaborated in Note B8 on Status of Corporate Proposal Announced.

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



A8 Segmental Information

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2010	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oil & gas pipes threading services RM'000	Oilfield fishing & others RM'000	Elimination RM'000	Consolidated RM'000
D) <u>BUSINESS SEGMENT</u>							
Revenue							
- External	7,082	1,704	615	5,191	-	-	14,592
- Inter-segment	10	77	-	-	-	(87)	-
Total revenue	<u>7,092</u>	<u>1,781</u>	<u>615</u>	<u>5,191</u>	<u>-</u>	<u>(87)</u>	<u>14,592</u>
Results							
- Segment results	672	1,589	(3,681)	12	(4)		(1,412)
- Finance cost	(753)	-	(428)	(96)	-		<u>(1,277)</u>
Loss before taxation							(2,689)
- Taxation							<u>(458)</u>
Loss after taxation							(3,147)
Minority interest							<u>101</u>
Loss for the period attributable to equity holders of the Company							<u><u>(3,046)</u></u>
Assets							
Segment assets	116,432	12,430	92,606	24,851	229	(85,270)	161,278
Unallocated corporate assets							38
Consolidated Assets							<u>161,316</u>
Liabilities							
Segment liabilities	65,159	1,593	124,860	11,372	7,081	(93,069)	116,996
Unallocated corporate liabilities							1,545
Consolidated Liabilities							<u>118,541</u>

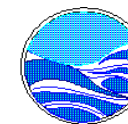
PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)



A8 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2010	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oil & gas pipes threading services RM'000	Oilfield fishing & others RM'000	Elimination RM'000	Consolidated RM'000
II) <u>GEOGRAPHICAL SEGMENT</u>							
Revenue from External Customers							
- Malaysia	7,082	1,704	-	5,191	-	-	13,977
- Indonesia	-	-	615	-	-	-	615
Total revenue	<u>7,082</u>	<u>1,704</u>	<u>615</u>	<u>5,191</u>	<u>-</u>	<u>-</u>	<u>14,592</u>
Non-current Assets							
- Malaysia	37,700	1,251	-	15,391	80	-	54,422
- Indonesia	-	-	75,004	-	-	-	75,004
	<u>37,700</u>	<u>1,251</u>	<u>75,004</u>	<u>15,391</u>	<u>80</u>	<u>-</u>	<u>129,426</u>
III) <u>INFORMATION ON MAJOR EXTERNAL CUSTOMERS</u>							
Contribute equal or > 10% of revenue for each business segment							
- Single largest customer	6,026	497	615	5,114	-	-	-
- 2nd largest customer	868	313	-	-	-	-	-
- 3rd largest customer	-	231	-	-	-	-	-
- 4th largest customer	-	194	-	-	-	-	-

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



A8 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2009	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oil & gas pipes threading services RM'000	Oilfield fishing & others RM'000	Elimination RM'000	Consolidated RM'000
D) BUSINESS SEGMENT							
Revenue							
- External	7,688	1,561	3,282	3,712	-	-	16,243
- Inter-segment	56	167	-	-	-	(223)	-
Total revenue	<u>7,744</u>	<u>1,728</u>	<u>3,282</u>	<u>3,712</u>	<u>-</u>	<u>(223)</u>	<u>16,243</u>
Results							
- Segment results	395	243	(2,016)	(368)	(38)		(1,784)
- Finance cost	(858)	(1)	(438)	(189)	-		<u>(1,486)</u>
Loss before taxation							(3,270)
- Taxation							<u>(517)</u>
Loss after taxation							(3,787)
Minority interest							<u>15</u>
Loss for the period attributable to equity holders of the Company							<u>(3,772)</u>
Assets							
Segment assets	124,964	9,419	90,154	26,346	267	(65,161)	185,989
Unallocated corporate assets							63
Consolidated Assets							<u>186,052</u>
Liabilities							
Segment liabilities	(80,908)	(1,427)	(112,737)	(13,723)	(7,136)	71,388	(144,543)
Unallocated corporate liabilities							<u>(1,811)</u>
Consolidated Liabilities							<u>(146,354)</u>

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



A8 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2009	Tubular handling services RM'000	Inspection & maintenance services RM'000	Land rig services RM'000	Oil & gas pipes threading services RM'000	Oilfield fishing & others RM'000	Elimination RM'000	Consolidated RM'000
II) <u>GEOGRAPHICAL SEGMENT</u>							
Revenue from External Customers							
- Malaysia	7,688	1,561	-	3,712	-	-	12,961
- Indonesia	-	-	3,282	-	-	-	3,282
Total revenue	<u>7,688</u>	<u>1,561</u>	<u>3,282</u>	<u>3,712</u>	<u>-</u>	<u>-</u>	<u>16,243</u>
Non-current Assets							
- Malaysia	55,402	2,819	-	18,088	266	-	76,575
- Indonesia	-	-	79,954	-	-	-	79,954
	<u>55,402</u>	<u>2,819</u>	<u>79,954</u>	<u>18,088</u>	<u>266</u>	<u>-</u>	<u>156,529</u>
III) <u>INFORMATION ON MAJOR EXTERNAL CUSTOMERS</u>							
Contribute equal or > 10% of revenue for each business segment							
- Single largest customer	6,338	525	3,282	1,981	-		
- 2nd largest customer	-	248	-	728	-		
- 3rd largest customer	-	216	-	-	-		

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



A9 Dividend Paid

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

A10 Property, Plant and Equipment and Non-Current Assets Held for Sale

The valuations of certain property, plant and equipment have been brought forward, without amendment from the financial statements for the year ended 30 June 2010.

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 upon the receipt of the balance sale proceeds from the purchaser. The carrying value of the property was reflected as Non-current assets held for sale as at end of the preceding financial period.

The Group recorded a gain on disposal or de-recognition of the non-current assets held for sale during the financial period under review of approximately RM1.2 million.

A11 Events Subsequent to the Balance Sheet Date

In the opinion of the Directors, no transaction or event of a material or unusual nature had occurred between 30 September 2010 up to 29 November 2010 other than as disclosed in Note A16 on Investment in Jointly Controlled Entities, Note B8 on Status of Corporate Proposal Announced and Note B11 on Changes in Material Litigation.

A12 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.

A13 Changes in Contingent Liabilities and Contingent Assets

	As at 30 Sept 2010 Unaudited RM'000	As at 30 June 2010 Audited RM'000
<u>Unsecured</u>		
a) Bank guarantees in favour of third parties	3,759	3,512
<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)



A14 Capital Commitments

	As at 30 Sept 2010 Unaudited RM'000	As at 30 June 2010 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
- for the tubular handling business	2	528
- for drilling services	180	-
	<u>182</u>	<u>542</u>

A15 Related Party Transactions

	3 months ended		3 months ended	
	30 Sept 2010 Unaudited RM'000	30 Sept 2009 Unaudited RM'000	30 Sept 2010 Unaudited RM'000	30 Sept 2009 Unaudited RM'000
Transactions with companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	154	142	154	142
b) IT related services	13	1	13	1
c) Transportation, freight and handling services	643	403	643	403
d) Interest payable to a director	<u>13</u>	<u>49</u>	<u>13</u>	<u>49</u>

Interest payable to a director is in respect of the advances amounted to RM3,583,000 (30.09.2009: 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 repaid by the Group as at end of the current financial period under review.

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.

A16 Investment in Jointly Controlled Entities

	As at 30 Sept 2010 Unaudited RM'000	As at 30 June 2010 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>

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



A16 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 Sept 2010	30 June 2010
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 in the last financial year and is currently pending delivery of arbitration judgement by the arbitrator.

A17 Other Investments

	As at 30 Sept 2010 Unaudited RM'000	As at 30 June 2010 Audited RM'000
Available for sale investment - Unquoted shares	60	60
Held to maturity investment - Subordinated bonds	3,000	3,000
	<u>3,060</u>	<u>3,060</u>
Less: Accumulated impairment loss	(2,679)	(2,679)
	<u>381</u>	<u>381</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 period under review, the Group registered a total revenue of RM14.59 million with a gross profit of RM0.16 million. The Group's performance continued to be affected by its land drilling services as one of the drilling rigs was in the mobilisation stage to well location in Kalimantan, Indonesia while the other was awaiting for work order following the completion of a periodical maintenance exercise during the current financial period. This has contributed to the overall drop in the Group's revenue and gross profit by approximately RM1.65 million and RM1.07 million respectively when compared to the corresponding financial period.

The aforesaid factors have to a certain extent cushioned by a gain on disposal or de-recognition of non-current assets held for sale of approximately RM1.2 million with the Group chalking up a lower loss before taxation of approximately RM2.69 million compared to the corresponding financial period, a reduction of approximately 18% over the loss before taxation of the corresponding financial period. The Group recorded a net loss for the period of RM3.15 million during the current financial period.

B2 Variation of Results Against Preceding Quarter

The Group has recorded an improved revenue compared to the preceding financial period with an increase in revenue of approximately 17% to approximately RM14.59 million. This was mainly attributable to better revenue performance by the tubular handling services and progress billing on mobilisation of the Group's land rig to Kalimantan, Indonesia.

The aforesaid enabled the Group to turn-in a gross profit of approximately RM0.16 million, a positive variance of about 118% over the gross loss of approximately RM0.91 million incurred in the preceding financial period. This coupled with gain on disposal or de-recognition of non-current assets held for sale mentioned in Note B1 above have led to a reduced loss before taxation of about RM2.69 million, a drop of approximately RM4.47 million representing 62% over the loss before taxation of approximately RM7.16 million incurred in the preceding financial period. In the preceding financial period, the Group was affected by impairment charge and charges associated with importation of its land drilling rig.

For the current financial period, the Group recorded a net loss for the period of approximately RM3.15 million as against RM3.97 million recorded in preceding financial period. Lower net loss for the period (as compared to a loss before taxation of approximately RM7.16 million) in the preceding financial period was due principally to recognition of additional deferred tax asset and adjustment for reversal of deferred tax liabilities in the said period.

B3 Prospects for Financial Year ending 30 June 2012 (Financial Year 2012)

Against the backdrop of an improving global economic, the Board of Directors ("Board") is hopeful of an improvement in the domestic and global oil exploration activities which are directly related to the Group's operations.

The Group will work closely with its clients with emphasis on maintaining and extending existing service orders and contracts whilst continuing its efforts to source for new contracts and businesses for its core operations with an aim to better the utilisation of its revenue assets. More importantly, the Group which has one of its rigs already engaged for drilling operation in Kalimantan, will strive to put both rigs on drilling mode with improved utilisation compared to the previous financial year. It will also stay focus on the enhancement and consolidation of all its existing core businesses with cautious views on possible expansion into other oil producing countries.

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		3 months ended	
	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009
	Unaudited	Unaudited	Unaudited	Unaudited
	RM'000	RM'000	RM'000	RM'000
Taxation based on results				
Malaysian taxation				
- Current financial period	488	506	488	506
- Over provision in the previous years	(30)	-	(30)	-
Foreign Taxation	-	-	-	-
Deferred taxation	-	11	-	11
	<u>458</u>	<u>517</u>	<u>458</u>	<u>517</u>

Domestic income tax is calculated at the Malaysian Statutory tax rate of 25% (30.09.2009: 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.

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 Company has on 26 October 2010 aborted the ESOS of the Company. The ESOS was not implemented since the scheme was approved by the shareholders on 29 September 2005. The announcement was made to Bursa on 20 October 2010.

b) Rights Issue

The Rights Issue which raised a gross proceeds of RM10,963,950 was completed during the financial period under review following the listing of additional 36,546,500 new ordinary shares issued pursuant to the Rights Issue on the Main Market of Bursa on 23 August 2010. The new share capital of the Company is RM42,907,950 comprising 143,026,500 ordinary shares of RM0.30 par value each.

The proceeds have been fully utilised for repayment of borrowings, working capital and defray expenses of the corporate exercise in accordance to the manners as set out in the Abridged Prospectus ("AP") dated 27 July 2010 as at end of the current period under review.

**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 Sept 2010 Unaudited RM'000	As at 30 June 2010 Audited RM'000
a) Short term borrowings		
Repayable within twelve months		
- Secured	20,150	20,498
- Unsecured	8,413	9,805
	<u>28,563</u>	<u>30,303</u>
b) Long term borrowings		
Repayable after twelve months		
- Secured	31,523	33,831
- Unsecured	30,297	30,357
Portion repayable after one year	<u>61,820</u>	<u>64,188</u>
Borrowings denominated in foreign currency:		
United States Dollars (USD'000)	15,411	15,043
Ringgit Malaysia equivalent (RM'000)	<u>47,582</u>	<u>49,002</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 A17.

B10 Off Balance Sheet Financial Instruments

The Group does not have any off balance sheet financial instrument as at 29 November 2010.

B11 Changes in Material Litigation

Subsequent to the terminations mentioned in Note A16, 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.

**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 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.

There was no changes on the status of the aforesaid litigation matters during the current financial period under review.

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		3 months ended	
	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009
	Unaudited	Unaudited	Unaudited	Unaudited
- Loss attributable to equity holders of the parent (RM'000)	(3,046)	(3,772)	(3,046)	(3,772)
- Weighted average number of ordinary shares in issue ('000)	121,973	106,480	121,973	106,480
Basic loss per share (sen)	<u>(2.50)</u>	<u>(3.54)</u>	<u>(2.50)</u>	<u>(3.54)</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
29 November 2010