



# **KEJURUTERAAN SAMUDRA TIMUR BERHAD**

**Interim Financial Report for  
2<sup>nd</sup> Quarter Ended 31<sup>th</sup> December 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  
SECOND FINANCIAL QUARTER ENDED 31 DECEMBER 2010**

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE FINANCIAL PERIODS ENDED 31 DECEMBER 2010 AND 2009**

	Note	Second Quarter ended		Cumulative Six Months ended	
		31 December 2010	31 December 2009	31 December 2010	31 December 2009
		Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
<b>Continuing Operations</b>					
Revenue		18,030	17,458	32,622	33,701
Cost of sales		(17,620)	(15,245)	(32,048)	(30,255)
<b>Gross profit</b>		<u>410</u>	<u>2,213</u>	<u>574</u>	<u>3,446</u>
Other income		453	116	1,646	182
Administrative expenses		(1,277)	(1,735)	(2,645)	(3,248)
Operating expenses		(1,528)	(1,168)	(2,929)	(2,738)
Finance cost		(1,306)	(1,457)	(2,583)	(2,943)
<b>Loss before taxation</b>		<u>(3,248)</u>	<u>(2,031)</u>	<u>(5,937)</u>	<u>(5,301)</u>
Income tax expense	<b>B5</b>	(408)	(660)	(866)	(1,177)
<b>Loss for the period</b>		<u>(3,656)</u>	<u>(2,691)</u>	<u>(6,803)</u>	<u>(6,478)</u>
Attributable to:					
Equity holders of the Company		(3,400)	(2,698)	(6,446)	(6,470)
Minority interest		(256)	7	(357)	(8)
		<u>(3,656)</u>	<u>(2,691)</u>	<u>(6,803)</u>	<u>(6,478)</u>
Loss Per Share (sen)					
Basic	<b>B14</b>	<u>(2.38)</u>	<u>(2.53)</u>	<u>(4.86)</u>	<u>(6.08)</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 31 DECEMBER 2010 AND 2009



	Second Quarter ended		Cumulative Six Months ended	
	31 December	31 December	31 December	31 December
	2010	2009	2010	2009
	Unaudited	Unaudited	Unaudited	Unaudited
	RM'000	RM'000	RM'000	RM'000
<b>Loss for the period</b>	(3,656)	(2,691)	(6,803)	(6,478)
<b>Other Comprehensive Income:</b>				
Currency translation differences	65	79	887	309
<b>Total other comprehensive income</b>	<u>65</u>	<u>79</u>	<u>887</u>	<u>309</u>
<b>Total comprehensive loss</b>	<u><u>(3,591)</u></u>	<u><u>(2,612)</u></u>	<u><u>(5,916)</u></u>	<u><u>(6,169)</u></u>
Attributable to:				
Equity holders of the Company	(3,334)	(2,600)	(5,494)	(6,208)
Minority interest	(257)	(12)	(422)	39
	<u><u>(3,591)</u></u>	<u><u>(2,612)</u></u>	<u><u>(5,916)</u></u>	<u><u>(6,169)</u></u>

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2010 AND 30 JUNE 2010**



		As at 31 December 2010 Unaudited RM'000	As at 30 June 2010 Audited RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	A10	119,671	130,100
Investment in jointly controlled entities	A16	-	-
Other investments	A17	381	381
Goodwill on consolidation		5,242	5,242
		<u>125,294</u>	<u>135,723</u>
<b>Current assets</b>			
Inventories		4,309	4,816
Trade receivables		16,607	10,139
Other receivables		5,206	9,667
Tax recoverable		1,432	1,525
Cash and bank balances (including fixed deposits)		2,937	1,906
		<u>30,491</u>	<u>28,053</u>
Non-current assets held for sale		-	1,867
		<u>30,491</u>	<u>29,920</u>
<b>TOTAL ASSETS</b>		<u>155,785</u>	<u>165,643</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	A7	42,908	31,944
Share premium		8,412	9,283
Other reserves		4,768	3,816
Accumulated losses	B9	(23,231)	(15,902)
		<u>32,857</u>	<u>29,141</u>
<b>Minority interest</b>		<u>6,327</u>	<u>6,749</u>
<b>Total equity</b>		<u>39,184</u>	<u>35,890</u>
<b>Non-current liabilities</b>			
Bank borrowings	B10	60,540	64,188
Deferred tax liabilities		3,406	3,758
		<u>63,946</u>	<u>67,946</u>
<b>Current liabilities</b>			
Trade payables		8,956	8,020
Other payables		15,076	23,197
Bank borrowings	B10	28,352	30,303
Tax payable		271	287
		<u>52,655</u>	<u>61,807</u>
<b>Total liabilities</b>		<u>116,601</u>	<u>129,753</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>155,785</u>	<u>165,643</u>
<b>NET ASSETS PER SHARE (SEN)</b>		<u>23.0</u>	<u>27.4</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE 6 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 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	
<b>At 1 July 2010</b>	31,944	9,283	4,468	(652)	(15,902)	29,141	6,749	35,890
Effect arising from adoption FRS 139	-	-	-	-	(883)	(883)	-	(883)
<b>At 1 July 2010 (restated)</b>	31,944	9,283	4,468	(652)	(16,785)	28,258	6,749	35,007
Loss for the period	-	-	-	-	(6,446)	(6,446)	(357)	(6,803)
Other comprehensive income / (loss)	-	-	-	952	-	952	(65)	887
Total comprehensive loss for the period	-	-	-	952	(6,446)	(5,494)	(422)	(5,916)
<b>Transactions with owners in their capacity as owners:</b>								
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
<b>At 31 December 2010 (Unaudited)</b>	42,908	8,412	4,468	300	(23,231)	32,857	6,327	39,184

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE 6 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 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	
<b>At 1 July 2009</b>	53,240	9,283	4,468	(1,596)	(23,483)	41,912	1,343	43,255
Loss for the period	-	-	-	-	(6,470)	(6,470)	(8)	(6,478)
Other comprehensive income	-	-	-	262	-	262	47	309
Total comprehensive loss for the period	-	-	-	262	(6,470)	(6,208)	39	(6,169)
Minority interest from divestment in Subsidiary	-	-	-	-	-	-	4,760	4,760
<b>Transactions with owners in their capacity as owners:</b>	-	-	-	-	-	-	-	-
<b>At 31 December 2009 (Unaudited)</b>	53,240	9,283	4,468	(1,334)	(29,953)	35,704	6,142	41,846

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE 6 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER**



	<b>6 months ended</b>	
	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>Unaudited RM'000</b>	<b>Unaudited RM'000</b>
<b>Cash Flows From Operating Activities</b>		
Loss before taxation	(5,937)	(5,301)
Adjustments for non-cash and non-operating items:		
- Non-cash items	9,618	9,554
- Investing and financing items	444	2,724
<b>Operating profit before changes in working capital</b>	<b>4,125</b>	<b>6,977</b>
Changes in working capital:		
- Changes in current assets	(1,500)	(3,263)
- Changes in current liabilities	(8,503)	(1,888)
Interest paid	(1,246)	(2,844)
Interest received	7	10
Net change in taxation	(789)	(2,191)
<b>Net cash used in operating activities</b>	<b>(7,906)</b>	<b>(3,199)</b>
<b>Net cash generated from investing activities</b>	<b>3,032</b>	<b>3,373</b>
<b>Net cash generated in financing activities</b>	<b>5,367</b>	<b>1,044</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>493</b>	<b>1,218</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>(7,549)</b>	<b>(9,916)</b>
<b>Effects of exchange rate changes</b>	<b>2,294</b>	<b>2,426</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>(4,762)</b>	<b>(6,272)</b>
<b>Analysis of Cash and Cash Equivalents:</b>		
Cash and bank balances	2,700	1,467
Deposits with licensed financial institutions	237	495
Bank overdrafts	(7,699)	(8,234)
<b>Cash and Cash Equivalents</b>	<b>(4,762)</b>	<b>(6,272)</b>



## 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
<b><u>Liabilities</u></b>			
Borrowings	94,491	883	95,374
<b><u>Equity</u></b>			
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**

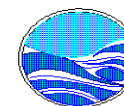
During the financial period under review, there was no change in accounting estimates adopted by the Group.

**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.

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



**A8 Segmental Information**

<b>UNAUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2010</b>	<b>Tubular handling services RM'000</b>	<b>Inspection &amp; maintenance services RM'000</b>	<b>Land rig services RM'000</b>	<b>Oil &amp; gas pipes threading services RM'000</b>	<b>Oilfield fishing &amp; others RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>D) <u>BUSINESS SEGMENT</u></b>							
<b>Revenue</b>							
- External	15,795	4,523	2,687	9,617	-	-	32,622
- Inter-segment	38	181	-	16	-	(235)	-
Total revenue	<u>15,833</u>	<u>4,704</u>	<u>2,687</u>	<u>9,633</u>	<u>-</u>	<u>(235)</u>	<u>32,622</u>
<b>Results</b>							
- Segment results	451	2,245	(5,655)	(382)	(13)		(3,354)
- Finance cost	(1,541)	-	(869)	(173)	-		<u>(2,583)</u>
Loss before taxation							(5,937)
- Taxation							<u>(866)</u>
Loss after taxation							(6,803)
Minority interest							<u>357</u>
Loss for the period attributable to equity holders of the Company							<u>(6,446)</u>
<b>Assets</b>							
Segment assets	116,015	12,673	88,039	22,461	229	(83,670)	155,747
Unallocated corporate assets							38
Consolidated Assets							<u>155,785</u>
<b>Liabilities</b>							
Segment liabilities	66,065	1,524	125,733	9,456	7,081	(94,802)	115,057
Unallocated corporate liabilities							1,544
Consolidated Liabilities							<u>116,601</u>

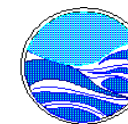
**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134 (CONT'D)**



**A8 Segmental Information (Cont'd)**

<b>UNAUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2010</b>	<b>Tubular handling services RM'000</b>	<b>Inspection &amp; maintenance services RM'000</b>	<b>Land rig services RM'000</b>	<b>Oil &amp; gas pipes threading services RM'000</b>	<b>Oilfield fishing &amp; others RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>II) <u>GEOGRAPHICAL SEGMENT</u></b>							
<b>Revenue from External Customers</b>							
- Malaysia	15,795	4,523	-	9,617	-	-	29,935
- Indonesia	-	-	2,687	-	-	-	2,687
Total revenue	<u>15,795</u>	<u>4,523</u>	<u>2,687</u>	<u>9,617</u>	<u>-</u>	<u>-</u>	<u>32,622</u>
<b>Non-current Assets</b>							
- Malaysia	35,802	1,239	-	14,629	70	-	51,740
- Indonesia	-	-	73,554	-	-	-	73,554
	<u>35,802</u>	<u>1,239</u>	<u>73,554</u>	<u>14,629</u>	<u>70</u>	<u>-</u>	<u>125,294</u>
<b>III) <u>INFORMATION ON MAJOR EXTERNAL CUSTOMERS</u></b>							
<b>Contribute equal or &gt; 10% of revenue for each business segment</b>							
- Single largest customer	11,305	1,276	2,687	9,524	-	-	-
- 2nd largest customer	1,925	699	-	-	-	-	-
- 3rd largest customer	-	609	-	-	-	-	-
- 4th largest customer	-	-	-	-	-	-	-

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



A8 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2009	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
<b>D) BUSINESS SEGMENT</b>							
<b>Revenue</b>							
- External	14,271	3,965	7,823	7,642	-	-	33,701
- Inter-segment	88	253	-	-	-	(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>
<b>Results</b>							
- Segment results	1,311	902	(4,059)	(474)	(38)		(2,358)
- Finance cost	(1,743)	(3)	(868)	(329)	-		<u>(2,943)</u>
Loss before taxation							(5,301)
- Taxation							<u>(1,177)</u>
Loss after taxation							(6,478)
Minority interest							<u>8</u>
Loss for the period attributable to equity holders of the Company							<u>(6,470)</u>
<b>Assets</b>							
Segment assets	113,518	10,529	96,847	26,146	267	(67,106)	180,201
Unallocated corporate assets							63
Consolidated Assets							<u>180,264</u>
<b>Liabilities</b>							
Segment liabilities	70,819	2,076	119,811	13,712	7,136	(76,921)	136,633
Unallocated corporate liabilities							1,785
Consolidated Liabilities							<u>138,418</u>

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



A8 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2009	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
<b>II) <u>GEOGRAPHICAL SEGMENT</u></b>							
<b>Revenue from External Customers</b>							
- Malaysia	14,271	3,965	-	7,642	-	-	25,878
- Indonesia	-	-	7,823	-	-	-	7,823
Total revenue	<u>14,271</u>	<u>3,965</u>	<u>7,823</u>	<u>7,642</u>	<u>-</u>	<u>-</u>	<u>33,701</u>
<b>Non-current Assets</b>							
- Malaysia	49,931	2,805	-	17,227	268	-	70,231
- Indonesia	-	-	76,683	-	-	-	76,683
	<u>49,931</u>	<u>2,805</u>	<u>76,683</u>	<u>17,227</u>	<u>268</u>	<u>-</u>	<u>146,914</u>
<b>III) <u>INFORMATION ON MAJOR EXTERNAL CUSTOMERS</u></b>							
<b>Contribute equal or &gt; 10% of revenue for each business segment</b>							
- Single largest customer	11,536	1,005	7,823	5,657	-	-	
- 2nd largest customer	-	562	-	909	-	-	
- 3rd largest customer	-	473	-	-	-	-	

**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.

**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 31 December 2010 up to 21 February 2011 other than as disclosed in Note A16 on Investment in Jointly Controlled Entities and Note B12 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**

	<b>As at 31 Dec 2010 Unaudited RM'000</b>	<b>As at 30 June 2010 Audited RM'000</b>
<b><u>Unsecured</u></b>		
a) Bank guarantees in favour of third parties	3,759	3,512
<b><u>Secured</u></b>		
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.

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



**A14 Capital Commitments**

	<b>As at 31 Dec 2010 Unaudited RM'000</b>	<b>As at 30 June 2010 Audited RM'000</b>
Approved, contracted but unpaid costs for the purchase of machineries and equipment:		
- for the Oil Country Tubular Goods end-finishing business	-	14
- for the tubular handling business	-	528
- for drilling services	77	-
	<u>77</u>	<u>542</u>

**A15 Related Party Transactions**

	<b>3 months ended</b>		<b>6 months ended</b>	
	<b>31 Dec 2010 Unaudited RM'000</b>	<b>31 Dec 2009 Unaudited RM'000</b>	<b>31 Dec 2010 Unaudited RM'000</b>	<b>31 Dec 2009 Unaudited RM'000</b>
Transactions with companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	80	153	234	295
b) IT related services	68	3	81	4
c) Transportation, freight and handling services	124	174	767	577
d) Interest payable to a director	-	50	13	99
	<u>-</u>	<u>50</u>	<u>13</u>	<u>99</u>

Interest payable to a director is in respect of the advances amounted to RM3,583,000 (31.12.2009: RM3,400,000) 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 preceding financial period.

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**

	<b>As at 31 Dec 2010 Unaudited RM'000</b>	<b>As at 30 June 2010 Audited RM'000</b>
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	
			31 Dec 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 31 Dec 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 RM18.03 million with a gross profit of RM0.41 million. The Group's performance continued to be affected by its land drilling services as its 1000HP land rig was only in its first month of implementation of an exploration project in Kalimantan, Indonesia while the other, 750HP land rig was awaiting for work order from potential clients. In addition, the Group's tubular handling services experienced a slight reduction in demand for its services with increase in sales of other specialists' services for specialised scope of works. These factors together with an inventories adjustment made in the corresponding financial period have contributed to the overall drop in the Group's gross profit by approximately RM1.80 million to RM0.41 million as compared to the corresponding financial period.

The aforesaid reduction in gross profit translated into a higher loss for the period of the current financial period under review of RM3.66 million, an increase of approximately RM0.97 million when compared to a loss for the period of RM2.69 million recorded in the corresponding period.

The Group chalked up a net loss attributable to equity holders of the parent of RM3.40 million for the current financial period under review.

**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 about 24% to approximately RM18.03 million. This was mainly attributable to better revenue performance by the tubular handling services, land drilling services and pipes inspection and maintenance services. The aforesaid enabled the Group to turn-in a higher gross profit of approximately RM0.41 million, a positive variance of about 150% over the gross profit of about RM0.16 million recorded in the preceding financial period.

With the low utilisation of the Group's main revenue plant and machinery in particular its land drilling services (as mentioned in Note B1 above), the Group continued to record operational losses with a loss for the period of RM3.66 million for the current financial period under review. Despite of a better gross profit position, the loss for the period was approximately 16% higher than the loss for the period of RM3.15 million recorded in the preceding financial period as the results of the preceding financial period was boosted by gain on disposal or de-recognition of non-current assets held for sale.

The net loss attributable to equity holders of the parent for the current financial period under review of RM3.40 million was an increase of approximately 12% over that of the preceding financial 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 plant and machinery. 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		6 months ended	
	31 Dec 2010 Unaudited RM'000	31 Dec 2009 Unaudited RM'000	31 Dec 2010 Unaudited RM'000	31 Dec 2009 Unaudited RM'000
<b>Taxation based on results</b>				
Malaysian taxation				
- Current financial period	274	649	762	1,166
- Under/(Over) provision in the previous years	134	-	104	-
Foreign Taxation	-	-	-	-
Deferred taxation	-	11	-	11
	<u>408</u>	<u>660</u>	<u>866</u>	<u>1,177</u>

Domestic income tax is calculated at the Malaysian Statutory tax rate of 25% (31.12.2009: 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**

There was corporate proposal announced that is pending implementation and completion as at end of the financial period under review.

**B9 Realised and Unrealised Profits / (Losses)**

	Current Year - Quarter Ended	
	31 Dec 2010 Unaudited RM'000	30 Sept 2010 Unaudited RM'000
Total retained profits / (accumulated losses) of the Company and its subsidiaries		
- Realised	(15,978)	(11,765)
- Unrealised	(7,253)	(8,066)
Total retained profits / (accumulated losses) as per consolidated accounts	<u>(23,231)</u>	<u>(19,831)</u>

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



**B10 Group Borrowings and Debt Securities**

	<b>As at 31 Dec 2010 Unaudited RM'000</b>	<b>As at 30 June 2010 Audited RM'000</b>
<b>a) Short term borrowings</b>		
Repayable within twelve months		
- Secured	20,323	20,498
- Unsecured	8,029	9,805
	<u>28,352</u>	<u>30,303</u>
<b>b) Long term borrowings</b>		
Repayable after twelve months		
- Secured	30,324	33,831
- Unsecured	30,216	30,357
Portion repayable after one year	<u>60,540</u>	<u>64,188</u>
Borrowings denominated in foreign currency:		
United States Dollars (USD'000)	15,398	15,043
Ringgit Malaysia equivalent (RM'000)	<u>47,480</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.

**B11 Off Balance Sheet Financial Instruments**

The Group does not have any off balance sheet financial instrument as at 21 February 2011.

**B12 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)**



**B12 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.

**B13 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)**



**B14 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: -

	<b>3 months ended</b>		<b>6 months ended</b>	
	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
- Loss attributable to equity holders of the parent (RM'000)	(3,400)	(2,698)	(6,446)	(6,470)
- Weighted average number of ordinary shares in issue ('000)	143,027	106,480	132,500	106,480
Basic loss per share (sen)	<u>(2.38)</u>	<u>(2.53)</u>	<u>(4.86)</u>	<u>(6.08)</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  
21 February 2011