KEJURUTERAAN SAMUDRA TIMUR BERHAD

Interim Financial Report for
4th Quarter Ended 30th June 2011
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 2011

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIODS ENDED 30 JUNE 2011 AND 2010

	Note	Fourth Quarter ended		Cumulative Twelve Months ended	
		30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000	30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000
Continuing Operations					
Revenue		18,654	12,423	68,081	60,041
Cost of sales		(18,483)	(13,335)	(66,279)	(56,401)
Gross profit		171	(912)	1,802	3,640
Other income		353	94	3,559	307
Administrative expenses		(2,990)	(3,528)	(7,257)	(8,055)
Operating expenses		(1,630)	(1,390)	(6,172)	(5,454)
Finance cost		(1,577)	(1,422)	(5,337)	(5,672)
Loss before taxation		(5,673)	(7,158)	(13,405)	(15,234)
Income tax expense	**B5**	(193)	3,184	(904)	2,185
Loss for the period		(5,866)	(3,974)	(14,309)	(13,049)
Attributable to:					
Equity holders of the Company		(6,261)	(5,095)	(14,805)	(13,715)
Minority interest		395	1,121	496	666
		(5,866)	(3,974)	(14,309)	(13,049)
Loss Per Share (sen)	**B14**				
Basic		(4.38)	(4.78)	(10.75)	(12.88)
Fully diluted		N/A	N/A	N/A	N/A

N/A - Not Applicable

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIODS ENDED 30 JUNE 2011 AND 2010

	Fourth Quarter ended		Cumulative Twelve Months ended	
	30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000	30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000
Loss for the period	(5,866)	(3,974)	(14,309)	(13,049)
Other Comprehensive Income:				
Currency translation differences	101	15	1,276	925
Total other comprehensive income	101	15	1,276	925
Total comprehensive loss	(5,765)	(3,959)	(13,033)	(12,124)
Attributable to:				
Equity holders of the Company	(6,157)	(5,073)	(13,441)	(12,771)
Minority interest	392	1,114	408	647
	(5,765)	(3,959)	(13,033)	(12,124)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2011 AND 30 JUNE 2010

	Note	As at 30 June 2011 Unaudited RM'000	As at 30 June 2010 Audited RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	**A10**	112,550	130,100
Investment in jointly controlled entities	**A16**	-	-
Other investments	**A17**	35	381
Goodwill on consolidation		5,242	5,242
		117,827	135,723
Current assets			
Inventories		4,763	4,816
Trade receivables		18,318	10,139
Other receivables		5,977	9,667
Tax recoverable		1,088	1,525
Cash and bank balances (including fixed deposits)		2,365	1,906
		32,511	28,053
Non-current assets held for sale		-	1,867
		32,511	29,920
TOTAL ASSETS		150,338	165,643
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		5,180	3,816
Accumulated losses	**B9**	(30,027)	(15,902)
		26,473	29,141
Minority interest		7,158	6,750
Total equity		33,631	35,891
Non-current liabilities			
Bank borrowings	**B10**	27,523	64,188
Deferred tax liabilities		3,101	3,758
		30,624	67,946
Current liabilities			
Trade payables		10,458	8,020
Other payables		14,265	23,196
Bank borrowings	**B10**	61,094	30,303
Tax payable		266	287
		86,083	61,806
Total liabilities		116,707	129,752
TOTAL EQUITY AND LIABILITIES		150,338	165,643
NET ASSETS PER SHARE (SEN)		**18.5**	**27.4**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 12 MONTH FINANCIAL PERIOD ENDED 30 JUNE 2011

	Attributable to equity holders of the Company						Minority interest	Total equity
	◄── Non-disributable			──►	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	RM'000
At 1 July 2010	31,944	9,283	4,468	(652)	(15,902)	29,141	6,750	35,891
Effect arising from adoption FRS 139	-	-	-	-	680	680	-	680
At 1 July 2010 (restated)	31,944	9,283	4,468	(652)	(15,222)	29,821	6,750	36,571
Loss for the period	-	-	-	-	(14,805)	(14,805)	496	(14,309)
Other comprehensive income / (loss)	-	-	-	1,364	-	1,364	(88)	1,276
Total comprehensive loss for the period	-	-	-	1,364	(14,805)	(13,441)	408	(13,033)
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 June 2011 (Unaudited)	42,908	8,412	4,468	712	(30,027)	26,473	7,158	33,631

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 12 MONTH FINANCIAL PERIOD ENDED 30 JUNE 2010

	Attributable to equity holders of the Company						Minority interest	Total equity
	← Non-disributable			→	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	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	-	-	-	-	(13,715)	(13,715)	666	(13,049)
Other comprehensive income	-	-	-	944	-	944	(19)	925
Total comprehensive loss for the period	-	-	-	944	(13,715)	(12,771)	647	(12,124)
Minority interest from divestment in Subsidiary	-	-	-	-	-	-	4,760	4,760
Transactions with owners in their capacity as owners:								
Capital Reduction and Set-Off	(21,296)	-	-	-	21,296	-	-	-
At 30 June 2010 (Audited)	31,944	9,283	4,468	(652)	(15,902)	29,141	6,750	35,891

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 12 MONTH FINANCIAL PERIOD ENDED 30 JUNE

	12 months ended	
	30 June 2011	**30 June 2010**
	Unaudited	**Audited**
	RM'000	**RM'000**
Cash Flows From Operating Activities		
Loss before taxation	(13,405)	(15,234)
Adjustments for non-cash and non-operating items:		
- Non-cash items	19,206	21,309
- Investing and financing items	2,182	5,143
Operating profit before changes in working capital	7,983	11,218
Changes in working capital:		
- Changes in current assets	(4,436)	2,761
- Changes in current liabilities	(7,935)	4,088
Interest paid	(3,857)	(5,455)
Interest received	9	21
Net change in taxation	(793)	(2,732)
Net cash used in operating activities	(9,029)	9,901
Net cash generated from investing activities	915	3,318
Net cash generated from / (used in) financing activities	6,381	(11,779)
Net Change in Cash and Cash Equivalents	(1,733)	1,440
Cash and Cash Equivalents at Beginning of Period	(7,549)	(9,916)
Effects of exchange rate changes	3,674	927
Cash and Cash Equivalents at End of Period	(5,608)	(7,549)
Analysis of Cash and Cash Equivalents:		
Cash and bank balances	2,037	1,557
Deposits with licensed financial institutions	328	349
Bank overdrafts	(7,973)	(9,455)
Cash and Cash Equivalents	(5,608)	(7,549)

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134

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 conjuction 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	(680)	93,811
<u>Equity</u>			
Accumulated losses	(15,902)	680	(15,222)

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.

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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A8 Segmental Information

UNAUDITED RESULTS FOR FOR 12-MONTH PERIOD ENDED 30.6.2011	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
I) BUSINESS SEGMENT							
Revenue							
- External	31,962	8,964	6,494	20,661	-	-	68,081
- Inter-segment	68	432	-	17	-	(517)	-
Total revenue	32,030	9,396	6,494	20,678	-	(517)	68,081
Results							
- Segment results	1,418	2,777	(14,210)	1,951	(4)		(8,068)
- Finance cost	(3,075)	-	(1,939)	(323)	-		(5,337)
Loss before taxation							(13,405)
- Taxation							(904)
Loss after taxation							(14,309)
Minority interest							(496)
Loss for the period attributable to equity holders of the Company							(14,805)
Assets							
Segment assets	116,000	13,135	85,005	24,587	156	(88,585)	150,298
Unallocated corporate assets							40
Consolidated Assets							150,338
Liabilities							
Segment liabilities	66,214	1,543	111,902	9,794	7,008	(81,273)	115,188
Unallocated corporate liabilities							1,519
Consolidated Liabilities							116,707

A8 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 12-MONTH PERIOD ENDED 30.6.2011	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) GEOGRAPHICAL SEGMENT							
Revenue from External Customers							
- Malaysia	31,962	8,964	-	20,661	-	-	61,587
- Indonesia	-	-	6,494	-	-	-	6,494
Total revenue	31,962	8,964	6,494	20,661	-	-	68,081
Non-current Assets							
- Malaysia	31,860	1,472	-	14,041	48	-	47,421
- Indonesia	-	-	70,406	-	-	-	70,406
	31,860	1,472	70,406	14,041	48	-	117,827
III) INFORMATION ON MAJOR EXTERNAL CUSTOMERS							
Contribute equal or > 10% of revenue for each business segment							
- Single largest customer	21,953	1,573	6,494	17,813	-		
- 2nd largest customer	4,216	1,484	-	2,318	-		
- 3rd largest customer	-	1,443	-	-	-		
- 4th largest customer	-	-	-	-	-		

A8 Segmental Information (Cont'd)

AUDITED RESULTS FOR FOR 12-MONTH PERIOD ENDED 30.6.2010	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
I) BUSINESS SEGMENT							
Revenue							
- External	25,884	8,326	10,010	15,821	-	-	60,041
- Inter-segment	119	437	-	1	-	(557)	-
Total revenue	26,003	8,763	10,010	15,822	-	(557)	60,041
Results							
- Segment results	(855)	1,912	(11,018)	403	(4)		(9,562)
- Finance cost	(3,464)	(10)	(1,671)	(527)	-		(5,672)
Loss before taxation							(15,234)
- Taxation							2,185
Loss after taxation							(13,049)
Minority interest							(666)
Loss for the period attributable to equity holders of the Company							(13,715)
Assets							
Segment assets	108,991	12,002	94,724	25,898	227	(77,764)	164,078
Unallocated corporate assets							1,565
Consolidated Assets							165,643
Liabilities							
Segment liabilities	64,646	2,407	121,625	13,044	7,078	(84,398)	124,402
Unallocated corporate liabilities							5,350
Consolidated Liabilities							129,752

A8 Segmental Information (Cont'd)

AUDITED RESULTS FOR FOR 12-MONTH PERIOD ENDED 30.6.2010	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) GEOGRAPHICAL SEGMENT							
Revenue from External Customers							
- Malaysia	25,884	8,326	-	15,821	-	-	50,031
- Indonesia	-	-	10,010	-	-	-	10,010
Total revenue	25,884	8,326	10,010	15,821	-	-	60,041
Non-current Assets							
- Malaysia	39,163	1,059	-	16,233	90	-	56,545
- Indonesia	-	-	79,178	-	-	-	79,178
	39,163	1,059	79,178	16,233	90	-	135,723
III) INFORMATION ON MAJOR EXTERNAL CUSTOMERS							
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	-	-	-		

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 30 June 2011 up to 23 August 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

	As at 30 June 2011 Unaudited RM'000	As at 30 June 2010 Audited RM'000
Unsecured		
a) Bank guarantees in favour of third parties	3,997	3,512

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

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A14 Capital Commitments

	As at 30 June 2011 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	316	14
- for the tubular handling business	210	528
	526	542

A15 Related Party Transactions

	3 months ended		12 months ended	
	30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000	30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000
Transactions by a subsidary with one of its substantial corporate shareholders :-				
a) Rendering of threading services and sales	4,042	4,038	17,813	12,389
b) Purchase of materials	211	334	1,160	675
c) Rental and storage charges and fees	323	-	1,691	-
Transactions with companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	178	70	554	498
b) IT related services	35	2	141	29
c) Transportation, freight and handling services	215	90	1,150	691
d) Interest payable to a director	-	62	13	217

Interest payable to a director was in respect of the advances amounted to RM3,583,000 (30.6.2010: RM3,583,000) made by the director which were unsecured, bore interest rate lower than the prevailing bank overdraft's rate per annum and had no fixed term of repayment. The advances were repaid by the Group in the first financial quarter of the current financial year ended 30 June 2011.

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 June 2011 Unaudited RM'000	As at 30 June 2010 Audited RM'000
Unqoted shares at cost	440	440
Net amount due from jointly controlled entities	23,083	23,083
	23,523	23,523
Share of post-acquisition reserves	(23,523)	(23,523)
	-	-

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 June 2011	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 abritrator 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 curently pending delivery of arbitration judgement by the arbitrator.

A17 Other Investments

	As at 30 June 2011 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
	3,060	3,060
Less: Accumulated impairment loss	(3,025)	(2,679)
	35	381

The subordinated bonds is in respect of a special purpose entity pertaining to the participation of the Company in a Collaterised 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 RM18.65 million, an increase of approximately 50% over that of the corresponding financial period. The improved turnover was attributable to better revenue earned by the tubular handling services and pipe inspection and maintenance services following the recent increase in domestic oil and gas activities. The positive effect of the aforesaid was however to a certain extent subdued by losses of the land drilling services resulting in the Group chalking up a gross profit of a mere RM0.17 million. Nonetheless it was a reserve of the gross loss of RM0.91 million recorded in the corresponding quarter and has enabled to Group to pull-in a lower loss before taxation of RM5.67 million a reduction of approximately 21% when compared to the corresponding quarter.

The Group incurred a tax expenses of approximately RM0.19 milion for the current financial quarter as compared to a net reversal of tax expenses of RM3.18 million in the corresponding quarter. Consequently, the Group incurred a higher loss for the period of approximately RM5.87 million for the current financial quarter.

For the current fnancial year ended 30 June 2011, the Group has recorded an overall increase in its revenue by approximately 13% to RM68.08 million. The improved revenue together with higher other income arising from the disposal of a office building as well as rental and storage fee billed to a principal client have enabled the Group to turn-in a reduced loss before taxation of RM13.41 million, a reduction of approximately 12% when compared to the last financial year ended 30 June 2010.

However, the Group recorded a higher loss for the period of RM14.31 million with a net tax expenses for the financial year of RM0.90 million as compared to a net reversal of tax expenses of RM2.19 million recorded in the last financial year.

B2 Variation of Results Against Preceding Quarter

For the current financial quarter under review, the Group registered a total revenue of RM18.65 million an increase of about 11% as compared to the preceding financial quarter. The Group's performance continued to be affected by its land drilling services as its 1000HP land rig was on inter-well movement and preparation stage for spud-in of the second well of the project in Kalimantan while the other, 750HP land rig was on stack-up stage during the current financial quarter. This has resulted in the Group recording a lower gross profit of RM0.17 million, a reduction of approximately RM0.89 million when compared to the preceding financial quarter.

The reduced gross profit coupled with a reduction in other income and hike in administrative expenses during the current financial quarter have translated into an increased loss before taxation of RM5.67 million as compared to a loss before taxation of RM1.80 million recorded in the preceding financial quarter.

The net loss attributable to equity holders of the parent for the current financial quarter under review was higher at RM6.26 million as compared to RM2.10 million reported in the preceding financial quarter.

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

Against the backdrop of a renewed concern on the economic conditions of the United States and containment of the debts crisis in Eurozone, the Board of Directors ("Board") is cautiously optimistic on a sustainable improvement in the domestic and global oil exploration activities which are directly related to the Group's operations.

The Group will continue its effort to maintain and extend the existing stream of service orders and contracts with its existing clients and new players operating in the domestic market and Asia Pacific region to ensure better utilisation of its existing core revenue plant and machinery and pool of technicians and specialists. Nonetheless, the Group will be cautious in expanding its core revenue plant and machinery to meet any short term service requirement of its existing and prospective clients and expand regionally. More importantly, the Group will accelerate its efforts while exercising due care to consider all options available inlcuding but not limited to time charter of the rigs, joint venture with local oil contractors / operators in Indonesia as well as divestment, to enable the Group to address the continuous adverse effects of its drilling operation on the financials of the Group.

B4 Variance from Profit Forecast and Profit Guarantee

This is not applicable to the Group.

B5 Income Tax Expense

	3 months ended		12 months ended	
	30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000	30 June 2011 Unaudited RM'000	30 June 2010 Audited RM'000
Taxation based on results				
Malaysian taxation				
- Current financial period	591	361	1,604	1,318
- Under/(Over) provision in the previous years	(93)	(707)	(395)	(676)
Foreign Taxation	-	-	-	-
Deferred taxation	(305)	(2,838)	(305)	(2,827)
	193	(3,184)	904	(2,185)

Domestic income tax is calculated at the Malaysian Statutory tax rate of 25% (30.6.2010: 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 no 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	
	30 June 2011 Unaudited RM'000	31 March 2011 Unaudited RM'000
Total retained profits / (accumulated losses) of the Company and its subsidiaries		
- Realised	(24,186)	(19,175)
- Unrealised	(5,841)	(6,154)
Total retained profits / (accumulated losses) as per consolidated accounts	(30,027)	(25,329)

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B10 Group Borrowings and Debt Securities

	As at 30 June 2011 Unaudited RM'000	As at 30 June 2010 Audited RM'000
a) Short term borrowings		
Repayable within twelve months		
- Secured	20,705	20,498
- Unsecured	40,389	9,805
	61,094	30,303
b) Long term borrowings		
Repayable after twelve months		
- Secured	27,523	33,831
- Unsecured	-	30,357
Portion repayable after one year	27,523	64,188
Borrowings denominated in foreign currency:		
United States Dollars (USD'000)	14,840	15,043
Ringgit Malaysia equivalent (RM'000)	44,824	49,002

Included in the unsecured short 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 23 August 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.

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.

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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: -

	3 months ended		12 months ended	
	30 June 2011 Unaudited	**30 June 2010 Audited**	**30 June 2011 Unaudited**	**30 June 2010 Audited**
- Loss attributable to equity holders of the parent (RM'000)	(6,261)	(5,095)	(14,805)	(13,715)
- Weighted average number of ordinary shares in issue ('000)	143,027	106,480	137,720	106,480
Basic loss per share (sen)	(4.38)	(4.78)	(10.75)	(12.88)

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
23 August 2011