



KEJURUTERAAN SAMUDRA TIMUR BERHAD

**Interim Financial Report for
1st Quarter Ended 30th September 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
FIRST FINANCIAL QUARTER ENDED 30 SEPTEMBER 2011**

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

	Note	First Quarter ended		Cumulative Three Months ended	
		30 September 2011	30 September 2010	30 September 2011	30 September 2010
		Unaudited RM'000	Audited RM'000	Unaudited RM'000	Audited RM'000
Continuing Operations					
Revenue		34,420	14,592	34,420	14,592
Cost of sales		(26,628)	(14,428)	(26,628)	(14,428)
Gross profit		<u>7,792</u>	<u>164</u>	<u>7,792</u>	<u>164</u>
Other income		275	1,193	275	1,193
Administrative expenses		(3,699)	(1,368)	(3,699)	(1,368)
Operating expenses		(1,830)	(1,401)	(1,830)	(1,401)
Finance cost		(1,141)	(1,277)	(1,141)	(1,277)
Profit / (Loss) before taxation		<u>1,397</u>	<u>(2,689)</u>	<u>1,397</u>	<u>(2,689)</u>
Income tax expense	B5	(1,745)	(458)	(1,745)	(458)
Profit / (Loss) for the period		<u>(348)</u>	<u>(3,147)</u>	<u>(348)</u>	<u>(3,147)</u>
Attributable to:					
Equity holders of the Company		3	(3,046)	3	(3,046)
Minority interest		(351)	(101)	(351)	(101)
		<u>(348)</u>	<u>(3,147)</u>	<u>(348)</u>	<u>(3,147)</u>
Profit / (Loss) Per Share (sen)					
Basic	B14	<u>0.00</u>	<u>(2.50)</u>	<u>0.00</u>	<u>(2.50)</u>
Fully diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

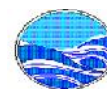
N/A - Not Applicable

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



	First Quarter ended		Cumulative Three Months ended	
	30 September	30 September	30 September	30 September
	2011	2010	2011	2010
	Unaudited	Audited	Unaudited	Audited
	RM'000	RM'000	RM'000	RM'000
Loss for the period	(348)	(3,147)	(348)	(3,147)
Other Comprehensive Income:				
Currency translation differences	(1,245)	822	(1,245)	822
Total other comprehensive income	<u>(1,245)</u>	<u>822</u>	<u>(1,245)</u>	<u>822</u>
Total comprehensive loss	<u><u>(1,593)</u></u>	<u><u>(2,325)</u></u>	<u><u>(1,593)</u></u>	<u><u>(2,325)</u></u>
Attributable to:				
Equity holders of the Company	(1,235)	(2,160)	(1,235)	(2,160)
Minority interest	(358)	(165)	(358)	(165)
	<u><u>(1,593)</u></u>	<u><u>(2,325)</u></u>	<u><u>(1,593)</u></u>	<u><u>(2,325)</u></u>

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



ASSETS	Note	As at 30 September 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
Non-current assets			
Property, plant and equipment	A9	107,952	112,550
Investment in jointly controlled entities	A15	-	-
Investment securities	A16	35	35
Goodwill on consolidation		5,242	5,242
Deferred tax assets		600	600
		<u>113,829</u>	<u>118,427</u>
Current assets			
Inventories		4,890	4,763
Trade receivables		34,253	18,318
Other receivables		6,485	5,978
Tax recoverable		244	1,088
Investment securities	A17	-	-
Cash and bank balances (including fixed deposits)		1,938	2,365
		<u>47,810</u>	<u>32,512</u>
Non-current assets held for sale		-	-
		<u>47,810</u>	<u>32,512</u>
TOTAL ASSETS		<u>161,639</u>	<u>150,939</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	A6	42,908	42,908
Share premium		8,412	8,412
Other reserves		3,942	5,180
Accumulated losses	B9	(30,024)	(30,027)
		<u>25,238</u>	<u>26,473</u>
Minority interest		<u>5,654</u>	<u>7,158</u>
Total equity		<u>30,892</u>	<u>33,631</u>
Non-current liabilities			
Bank borrowings	B10	26,439	26,266
Deferred tax liabilities		3,866	3,702
		<u>30,305</u>	<u>29,968</u>
Current liabilities			
Trade payables		16,660	10,458
Other payables		19,214	14,266
Bank borrowings	B10	63,969	62,351
Tax payable		599	265
		<u>100,442</u>	<u>87,340</u>
Total liabilities		<u>130,747</u>	<u>117,308</u>
TOTAL EQUITY AND LIABILITIES		<u>161,639</u>	<u>150,939</u>
NET ASSETS PER SHARE (SEN)		<u>17.6</u>	<u>18.5</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER 2011**



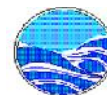
	Attributable to equity holders of the Company					Minority interest	Total equity	
	← Non-distributable →			Distributable				
	Share Capital RM'000	Share Premium RM'000	Revaluation Reserve RM'000	Exchange Translation Reserve RM'000	Accumulated Losses RM'000	Total RM'000	RM'000	
At 1 July 2011 (Audited)	42,908	8,412	4,468	712	(30,027)	26,473	7,158	33,631
Profit / (Loss) for the period	-	-	-	-	3	3	(351)	(348)
Other comprehensive income / (loss)	-	-	-	(1,238)	-	(1,238)	(7)	(1,245)
Total comprehensive profit / (loss) for the period	-	-	-	(1,238)	3	(1,235)	(358)	(1,593)
Transactions with owners in their capacity as owners:								
Dissolution of a subsidiary	-	-	-	-	-	-	(1,146)	(1,146)
At 30 September 2011 (Unaudited)	42,908	8,412	4,468	(526)	(30,024)	25,238	5,654	30,892

**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	RM'000
At 1 July 2009	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 CASH FLOWS
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 30 SEPTEMBER**



	3 months ended	
	30 September 2011	30 September 2010
	Unaudited RM'000	Unaudited RM'000
Cash Flows From Operating Activities		
Loss before taxation	1,397	(2,689)
Adjustments for non-cash and non-operating items:		
- Non-cash items	4,632	4,797
- Investing and financing items	2,832	(45)
Operating profit before changes in working capital	8,861	2,063
Changes in working capital:		
- Changes in current assets	(16,569)	(2,097)
- Changes in current liabilities	10,390	(7,042)
Interest paid	(371)	(1,029)
Interest received	-	4
Net change in taxation	(404)	(416)
Net cash used in operating activities	1,907	(8,517)
Net cash (used in) / generated from investing activities	(1,950)	3,733
Net cash generated from financing activities	1,987	6,474
Net Change in Cash and Cash Equivalents	1,944	1,690
Cash and Cash Equivalents at Beginning of Period	(5,608)	(7,549)
Effects of exchange rate changes	(2,175)	1,413
Cash and Cash Equivalents at End of Period	(5,839)	(4,446)
Analysis of Cash and Cash Equivalents:		
Cash and bank balances	1,610	3,459
Deposits with licensed financial institutions	328	178
Bank overdrafts	(7,777)	(8,083)
Cash and Cash Equivalents	(5,839)	(4,446)



A1 Basis of Preparation and Accounting Policies

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 financial year ended 30 June 2011 and the accompanying explanatory notes. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2011.

The significant accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2011 except for the adoption of the following amendments to FRSs and IC interpretations applicable to the Group:

Effective for annual financial period beginning on or after 1 January 2011

- Amendments to FRS 1 : Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- Amendments to FRS 1 : Additional Exemptions for First-time Adopters
- Amendments to FRS 2 : Group Cash-settled Share-based Payment Transactions

Effective for annual financial period beginning on or after 1 July 2011

- Amendments to IC Interpretation 14 : Prepayments of a Minimum Funding Requirement
- IC Interpretation 19 : Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above mentioned amendments to FRSs, IC Interpretation and amendment to IC Interpretation do not have any significant financial impact on the results and the financial position of the Group for the current quarter.

A2 Auditors' Report on Preceding Annual Financial Statements

The Auditors' Report of the financial statements for the financial period ended 30 June 2011 was not qualified.

A3 Seasonal or Cyclical Factors

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

A4 Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

A5 Changes in Accounting Estimates

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

A6 Debt and Equity Securities

There were no issuance and repayment of debts and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period under review.

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



A7 Segmental Information

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2011	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	Adjustments and Elimination RM'000	Consolidated RM'000
D) BUSINESS SEGMENT							
Revenue							
- External	19,834	2,152	7,173	5,261	-	-	34,420
- Inter-segment	16	148	-	1	-	(165)	-
Total revenue	<u>19,850</u>	<u>2,300</u>	<u>7,173</u>	<u>5,262</u>	<u>-</u>	<u>(165)</u>	<u>34,420</u>
Results							
- Segment results	4,904	236	(2,012)	(587)	(3)		2,538
- Finance cost	(708)	-	(354)	(79)	-		<u>(1,141)</u>
Profit before taxation							1,397
- Taxation							<u>(1,745)</u>
Loss after taxation							(348)
Minority interest							<u>351</u>
Profit for the period attributable to equity holders of the Company							<u>3</u>
Assets							
Segment assets	128,400	12,872	85,850	21,185	208	(86,915)	161,600
Unallocated corporate assets							<u>39</u>
Consolidated Assets							<u>161,639</u>
Liabilities							
Segment liabilities	71,490	924	119,276	9,981	7,060	(79,589)	129,142
Unallocated corporate liabilities							<u>1,605</u>
Consolidated Liabilities							<u>130,747</u>

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



A7 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 3-MONTH PERIOD ENDED 30.9.2011	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) <u>GEOGRAPHICAL SEGMENT</u>							
Revenue from External Customers							
- Malaysia	19,834	2,152	-	5,261	-	-	27,247
- Indonesia	-	-	7,173	-	-	-	7,173
Total revenue	<u>19,834</u>	<u>2,152</u>	<u>7,173</u>	<u>5,261</u>	<u>-</u>	<u>-</u>	<u>34,420</u>
Non-current Assets							
- Malaysia	30,043	1,521	-	14,231	39	-	45,834
- Indonesia	-	-	67,995	-	-	-	67,995
	<u>30,043</u>	<u>1,521</u>	<u>67,995</u>	<u>14,231</u>	<u>39</u>	<u>-</u>	<u>113,829</u>
III) <u>INFORMATION ON MAJOR EXTERNAL CUSTOMERS</u>							
Contribute equal or > 10% of revenue for each business segment							
- Single largest customer	13,610	481	6,233	3,507	-	-	-
- 2nd largest customer	-	318	940	1,297	-	-	-
- 3rd largest customer	-	267	-	-	-	-	-
- 4th largest customer	-	-	-	-	-	-	-

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



A7 Segmental Information (Cont'd)

AUDITED 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	Adjustments and Elimination RM'000	Consolidated RM'000
D) BUSINESS SEGMENT							
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>(3,046)</u>
Assets							
Segment assets	116,432	12,430	92,606	24,851	229	(84,651)	161,897
Unallocated corporate assets							38
Consolidated Assets							<u>161,935</u>
Liabilities							
Segment liabilities	61,229	1,498	124,860	11,305	7,081	(88,977)	116,996
Unallocated corporate liabilities							1,545
Consolidated Liabilities							<u>118,541</u>

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



A7 Segmental Information (Cont'd)

AUDITED 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	-	16,010	80	-	55,041
- Indonesia	-	-	75,004	-	-	-	75,004
	<u>37,700</u>	<u>1,251</u>	<u>75,004</u>	<u>16,010</u>	<u>80</u>	<u>-</u>	<u>130,045</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 Dividend Paid

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

A9 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 2011.

A10 Events Subsequent to the Balance Sheet Date

In the opinion of the Directors, no transaction or event of a material or unusual nature had occurred between 30 September 2011 up to 30 November 2011 other than as disclosed in Note A15 on Investment in Jointly Controlled Entities and Note B12 on Changes in Material Litigation.

A11 Changes in Composition of the Group

There was no change in the composition of the Group for the current financial period under review including business combination, acquisition or disposal of subsidiary companies and long term investments, restructuring and discontinuing operations other than the dissolution and derregistration of its 51% owned subsidiary, Sobena Offhsore International Limited from the register of Companies Registry of Hong Kong.

A12 Changes in Contingent Liabilities and Contingent Assets

	As at 30 Sept 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
<u>Unsecured</u>		
a) Bank guarantees in favour of third parties	3,997	3,997

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

A13 Capital Commitments

	As at 30 Sept 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
Approved, contracted but unpaid costs for the purchase of machineries and equipment:		
- for the Oil Country Tubular Goods end-finishing business	466	316
- for the tubular handling business	1,057	210
	1,523	526

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



A14 Related Party Transactions

	3 months ended		3 months ended	
	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010
	Unaudited	Unaudited	Unaudited	Unaudited
	RM'000	RM'000	RM'000	RM'000
Transactions by a subsidiary with one of its substantial corporate shareholders :-				
a) Rendering of threading services and sales	3,507	5,114	3,507	5,114
b) Purchase of materials	280	355	280	355
c) Rental and storage charges and fees	191	-	191	-
Transactions with companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	170	154	170	154
b) IT related services	30	13	30	13
c) Transportation, freight and handling services	362	643	362	643
d) Interest payable to a director	-	13	-	13

Interest payable to a director in the corresponding financial period was in respect of the advances amounted to 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 Directors of the Company are of the opinion that the above transactions were in the normal course of business and have been established under terms that are not more favourable to the related parties.

A15 Investment in Jointly Controlled Entities

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

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 2011	30 June 2011
KST Gagie Sdn Bhd ("KSTGSB")^	Oilfield fishing services	Malaysia	50%	50%
KST Gagie Labuan Ltd. ("KSTGLL")*	Oilfield fishing services	Labuan	51%	51%

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



A15 Investment in Jointly Controlled Entities (Cont'd)

- ^ - Pursuant to a Shareholders' Agreement entered into between Gagie Corporation S.A. ("Gagie") and the Company dated 19 December 2005, the control of KSTGSB was joint, as evidenced by inter alia, the quorum required for Board of Directors meetings and shareholders meetings and the requirement of joint bank signatories. The said Shareholders' Agreement has been unilaterally terminated by the Company on 5 April 2007 and Gagie has accepted the Company's "repudiation" of the Shareholders' Agreement. Notwithstanding the above, the parties have agreed to refer matters arising from the repudiation/termination to arbitration and until the resolution of the arbitration, the management of the Company continues to deem the control of KSTGSB as joint.
- * - Notwithstanding KSTGLL is owned 51% by the Company, however, pursuant to the Shareholders' Agreement entered into between Gagie and the Company dated 19 December 2005, the control of KSTGLL was joint, as evidenced by inter alia, the quorum required for Board of Directors meetings and shareholders meetings and the requirement of joint bank signatories. The said Shareholders' Agreement has been unilaterally terminated by the Company on 5 April 2007 and Gagie has accepted the Company's "repudiation" of the Shareholders' Agreement. Notwithstanding the above, the parties have agreed to refer matters arising from the repudiation/termination to arbitration and until the resolution of the arbitration, the management of the Company continues to deem the control of KSTGLL as joint.

The Group has discontinued the oilfield fishing operations in KSTGSB and KSTGLL subsequent to the terminations of the shareholders' agreements on 5 April 2007 due to various disputes. The termination was announced on 6 April 2007 by the Company to Bursa.

The joint venture partner, namely Gagie has accepted the termination/repudiation of the shareholders' agreements by the Company and both parties have agreed to refer the matters arising from the termination/repudiation to arbitration. Gagie and the Company have on 21 January 2008 formalised the appointment of an arbitrator for the aforesaid dispute whilst preliminary meeting between lawyers of both parties and the arbitrator was held in April 2008. The arbitration hearing exercise which commenced on 19 May 2009 has been completed and is currently pending delivery of arbitration judgement by the arbitrator.

A16 Investment Securities - Non-current

	As at 30 Sept 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
Available for sale investment - Unquoted shares	60	60
Less: Accumulated impairment loss	(25)	(25)
	<u>35</u>	<u>35</u>

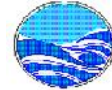
A17 Investment Securities - Current

	As at 30 Sept 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
Held to maturity investment - Subordinated bonds	3,000	3,000
Less: Accumulated impairment loss	(3,000)	(3,000)
	<u>-</u>	<u>-</u>

The subordinated bonds is in respect of a special purpose entity pertaining to the participation of the Company in a Collateralised Loan Obligations program in which RM30,000,000 term loan was granted to the Company.

There is no fixed coupon rate for the subordinated bonds and the maturity date of the subordinated bonds is 26 January 2012.

**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING
REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**



B1 Review of Performance

For the current financial quarter under review, the Group registered a total revenue of RM34.42 million an increase of about 136% when compared to the corresponding financial quarter, which was mainly due to better service performance reported by its tubular handling services, land drilling rig services and inspection and maintenance services which have recorded increases in revenue ranging from 26% to 1066% when compared to their respective revenue achievement in the corresponding financial quarter. This improved revenue performance has translated into a gross profit for the Group of RM7.79 million as compared to a mere RM0.2 million achieved in the corresponding financial quarter.

Despite of a charge of net unrealised translation loss on foreign currency of RM0.90 million during the current financial period, the Group reported a pre-tax profit of RM1.40 million as compared to a pre-tax loss of RM2.69 million suffered by the Group in the corresponding financial quarter.

The tubular handling services segment profit increased by 630% to RM4.90 million for the current financial quarter, as compared to RM0.67 million reported for the corresponding financial quarter due mainly to improved turnover arising from higher volume of work orders and activities.

The inspection and maintenance services segment profit reduced from RM1.59 million recorded in the corresponding financial quarter to RM0.24 million. The reduction was attributable to the gain on disposal or de-recognition of a non-current assets held for sale of approximately RM1.4 million recognised in the corresponding financial period.

The land rig services reported a reduction in segment loss of approximately 45% to RM2.0 million when compared to the corresponding financial quarter. The improved position which included a charge of net unrealised translation loss on foreign currency of RM1.29 (Corresponding financial period - gain of RM0.7 million) for the current financial period was principally due to higher revenue earned from both of its land drilling rigs.

The pipe threading services however, recorded a segment loss of RM0.59 million for the current financial quarter as compared to a segment profit RM0.01 million recorded in the corresponding financial quarter due to less favourable exchange rate for USD during the current financial period which has affected the value of service rendered as well as increasing cost of operation for provision of threading services.

B2 Variation of Results Against Preceding Quarter

For the current financial quarter under review, the Group registered a total revenue of RM34.42 million an increase of about 85% as compared to the preceding financial quarter. The improved turnover of the Group was mainly contributed by the tubular handling services which has shown a jump in its revenue by approximately 90% to RM19.83 million while land drilling rig services churned out a total revenue of RM7.17 million. This improved revenue performance has enabled the Group to produce a gross profit of RM7.79 million, an improvement of approximately RM7.59 million when compared to gross profit of RM0.2 million recorded in the preceding financial quarter.

Despite of a charge of net unrealised translation loss on foreign currency of RM0.90 million during the current financial period, the Group reported a pre-tax profit of RM1.40 million as compared to a pre-tax loss of RM5.67 million suffered by the Group in the preceding financial quarter.

The tubular handling services segment profit increased by 260% to RM4.90 million for the current financial quarter, as compared to RM1.36 million reported for the preceding financial quarter due mainly to improved work orders and activities. The inspection and maintenance services reported slight increase in segment profit from RM0.2 to RM0.24 million for the current financial quarter.

The land rig services reported a reduction in segment loss of approximately 71% from RM6.86 million recorded in the preceding financial to RM2.0 million. The improved position which included a charge of net unrealised translation loss on foreign currency of RM1.29 (Preceding financial period - gain of RM0.22 million) was principally due to higher revenue earned from the both of its land drilling rigs during the current financial quarter.

The pipe threading services however, recorded a segment loss of RM0.59 million for the current financial quarter as compared to a segment profit RM1.20 million recorded in the preceding quarter due to lower volume of pipes serviced.

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



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 including 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		3 months ended	
	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010
	Unaudited	Unaudited	Unaudited	Unaudited
	RM'000	RM'000	RM'000	RM'000
Taxation based on results				
Malaysian taxation				
- Current financial period	1,540	488	1,540	488
- Under/(Over) provision in the previous years	41	(30)	41	(30)
Foreign Taxation	-	-	-	-
Deferred taxation - under provision in the previous years	164	-	164	-
	<u>1,745</u>	<u>458</u>	<u>1,745</u>	<u>458</u>

Domestic income tax is calculated at the Malaysian Statutory tax rate of 25% (30.6.2011: 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.

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



B9 Realised and Unrealised Profits / (Losses)

As at end of the quarter:-	Quarter Ended 30 Sept 2011 Unaudited RM'000	Quarter Ended 30 June 2011 Audited RM'000
Total retained profits / (accumulated losses) of the Company and its subsidiaries		
- Realised	(21,271)	(24,186)
- Unrealised	(8,753)	(5,841)
Total retained profits / (accumulated losses) as per consolidated accounts	<u>(30,024)</u>	<u>(30,027)</u>

B10 Group Borrowings and Debt Securities

	As at 30 Sept 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
a) Short term borrowings		
Repayable within twelve months		
- Secured	23,786	21,962
- Unsecured	40,183	40,389
	<u>63,969</u>	<u>62,351</u>
b) Long term borrowings		
Repayable after twelve months		
- Secured	26,439	26,266
- Unsecured	-	-
Portion repayable after one year	<u>26,439</u>	<u>26,266</u>
Borrowings denominated in foreign currency:		
United States Dollars (USD'000)	14,736	14,840
Ringgit Malaysia equivalent (RM'000)	<u>46,896</u>	<u>44,824</u>

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 30 November 2011.

B12 Changes in Material Litigation

Subsequent to the terminations mentioned in Note A15, the Company has procured its wholly owned subsidiary, namely KST Fishing Services Sdn Bhd ("KSTFS") to continue with the implementation of the oilfield fishing contracts pending the resolution of disputes with Gagie through legal proceedings. This was challenged by Gagie through the Suit elaborated below.

**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)

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.

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 Profit / (Loss) Per Share

Basic profit / (loss) per share is calculated by dividing profit / (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 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010
	Unaudited	Unaudited	Unaudited	Unaudited
- Profit / (Loss) attributable to equity holders of the parent (RM'000)	3	(3,046)	3	(3,046)
- Weighted average number of ordinary shares in issue ('000)	143,027	121,973	143,027	121,973
Basic profit / (loss) per share (sen)	<u>0.00</u>	<u>(2.50)</u>	<u>0.00</u>	<u>(2.50)</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

Darmendran Kunaretnam
Executive Director
Kuala Lumpur
30 November 2011