



KEJURUTERAAN SAMUDRA TIMUR BERHAD

**Interim Financial Report for
2nd Quarter Ended 31st December 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
SECOND FINANCIAL QUARTER ENDED 31 DECEMBER 2011**

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIODS ENDED 31 DECEMBER 2011 AND 2010**

		Second Quarter ended		Cumulative Six Months ended	
	Note	31 December 2011	31 December 2010	31 December 2011	31 December 2010
		Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Continuing Operations					
Revenue		30,658	18,030	65,078	32,622
Cost of sales		(22,873)	(17,620)	(49,501)	(32,048)
Gross profit		<u>7,785</u>	<u>410</u>	<u>15,577</u>	<u>574</u>
Other income		414	453	689	1,646
Administrative expenses		(1,620)	(1,277)	(5,319)	(2,645)
Other operating expenses		(1,916)	(1,528)	(3,746)	(2,929)
Finance cost		(1,364)	(1,306)	(2,505)	(2,583)
Profit / (Loss) before taxation		<u>3,299</u>	<u>(3,248)</u>	<u>4,696</u>	<u>(5,937)</u>
Income tax expense	B5	(1,395)	(408)	(3,140)	(866)
Profit / (Loss) for the period		<u><u>1,904</u></u>	<u><u>(3,656)</u></u>	<u><u>1,556</u></u>	<u><u>(6,803)</u></u>
Attributable to:					
Equity holders of the Company		1,148	(3,400)	1,151	(6,446)
Minority interest		756	(256)	405	(357)
		<u><u>1,904</u></u>	<u><u>(3,656)</u></u>	<u><u>1,556</u></u>	<u><u>(6,803)</u></u>
Profit / (Loss) Per Share (sen)					
Basic	B11	<u><u>0.80</u></u>	<u><u>(2.38)</u></u>	<u><u>0.80</u></u>	<u><u>(4.86)</u></u>
Fully diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

N/A - This is not applicable to the Group

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



	Second Quarter ended		Cumulative Six Months ended	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Profit /(Loss) for the period	1,904	(3,656)	1,556	(6,803)
Other Comprehensive Income:				
Currency translation differences	65	65	(1,180)	887
Total other comprehensive income / (loss)	65	65	(1,180)	887
Total comprehensive profit / (loss)	1,969	(3,591)	376	(5,916)
Attributable to:				
Equity holders of the Company	1,212	(3,334)	(23)	(5,494)
Minority interest	757	(257)	399	(422)
	1,969	(3,591)	376	(5,916)

Note to the unaudited condensed consolidated statements of comprehensive income for the financial periods ended 31 December 2010 and 2011 pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

	Second Quarter ended		Cumulative Six Months ended	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
The following items have been included in arriving at loss for the period and total comprehensive loss:				
a) Interest income	-	2	4	6
b) Other income (excluding (a) above and (g) below)	414	99	685	155
c) Interest expense	(1,364)	(1,306)	(2,505)	(2,583)
d) Depreciation and amortisation	(4,489)	(4,820)	(9,121)	(9,618)
e) Provision for and write off of receivables	-	-	-	-
f) Provision for and write off of inventories	-	-	-	-
g) Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	352	-	1,485
h) Impairment of assets	-	-	-	-
i) Foreign exchange gain/(loss)	200	609	(764)	1,160
j) Gain/(loss) on derivatives	N/A	N/A	N/A	N/A
k) Exceptional items	-	-	-	-

N/A - This is not applicable to the Group

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011 AND 30 JUNE 2011**



		As at 31 December 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
ASSETS	Note		
Non-current assets			
Property, plant and equipment	A9	105,563	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>111,440</u>	<u>118,427</u>
Current assets			
Inventories		5,325	4,763
Trade receivables		30,667	18,318
Other receivables		7,653	5,978
Tax recoverable		631	1,088
Investment securities	A17	-	-
Cash and bank balances (including fixed deposits)		7,550	2,365
		<u>51,826</u>	<u>32,512</u>
Non-current assets held for sale		-	-
		<u>51,826</u>	<u>32,512</u>
TOTAL ASSETS		<u>163,266</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		4,006	5,180
Accumulated losses	B7	(28,876)	(30,027)
		<u>26,450</u>	<u>26,473</u>
Minority interest		6,411	7,158
Total equity		<u>32,861</u>	<u>33,631</u>
Non-current liabilities			
Loans and borrowings	B8	24,390	26,266
Deferred tax liabilities		3,866	3,702
		<u>28,256</u>	<u>29,968</u>
Current liabilities			
Trade payables		16,039	10,458
Other payables		20,252	14,266
Loans and borrowings	B8	63,652	62,351
Tax payable		2,206	265
		<u>102,149</u>	<u>87,340</u>
Total liabilities		<u>130,405</u>	<u>117,308</u>
TOTAL EQUITY AND LIABILITIES		<u>163,266</u>	<u>150,939</u>
NET ASSETS PER SHARE (SEN)		<u>18.5</u>	<u>18.5</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2011**



	Attributable to equity holders of the Company					Total RM'000	Minority interest RM'000	Total equity RM'000
	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		
At 1 July 2011 (Audited)	42,908	8,412	4,468	712	(30,027)	26,473	7,158	33,631
Profit for the period	-	-	-	-	1,151	1,151	405	1,556
Other comprehensive income / (loss)	-	-	-	(1,174)	-	(1,174)	(6)	(1,180)
Total comprehensive profit / (loss) for the period	-	-	-	(1,174)	1,151	(23)	399	376
Transactions with owners in their capacity as owners:								
Dissolution of a subsidiary	-	-	-	-	-	-	(1,146)	(1,146)
At 31 December 2011 (Unaudited)	42,908	8,412	4,468	(462)	(28,876)	26,450	6,411	32,861

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 12 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	
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	-	-	-	-	(6,446)	(6,446)	(357)	(6,803)
Other comprehensive income / (loss)	-	-	-	952	-	952	(65)	887
Total comprehensive profit / (loss) for the period	-	-	-	952	(6,446)	(5,494)	(422)	(5,916)
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 December 2010 (Unaudited)	42,908	8,412	4,468	300	(23,231)	32,857	6,327	39,184

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 3 MONTH FINANCIAL PERIOD ENDED 31 DECEMBER**



	6 months ended	
	31 December 2011	31 December 2010
	Unaudited RM'000	Unaudited RM'000
Cash Flows From Operating Activities		
Profit / (Loss) before taxation	4,696	(5,937)
Adjustments for non-cash and non-operating items:		
- Depreciation of property, plant and equipment	9,121	9,618
- Gain on disposal of assets held for sale	-	(1,485)
- Interest expense	2,505	2,583
- Unrealised loss / (gain) on foreign exchange	868	(1,407)
- Others	826	753
Operating profit before changes in working capital	18,016	4,125
Changes in working capital:		
- Decrease/(Increase) in inventories	(562)	507
- Decrease/(Increase) in trade and other receivables	(14,024)	(2,007)
- (Decrease)/Increase in trade and other payables	10,014	(8,503)
Interest paid	(933)	(1,246)
Interest received	-	7
Net change in taxation	(578)	(789)
Net cash from / (used in) operating activities	11,933	(7,906)
Cash Flows From Investing Activities		
Proceeds from disposal of property, plant and equipment and/or assets held for sale	389	4,821
Purchase of property, plant and equipment	(3,369)	(1,789)
Minority interest from dissolution of a subsidiary	(1,146)	-
Net cash (used in) / from investing activities	(4,126)	3,032
Cash Flows From Financing Activities		
Proceeds from issue of ordinary shares net of share issuance expenses	-	10,093
Increase / (Decrease) in loans and borrowings	2,033	(4,726)
Net cash from financing activities	2,033	5,367
Net Change in Cash and Cash Equivalents	9,840	493
Cash and Cash Equivalents at Beginning of Period	(5,608)	(7,549)
Effects of exchange rate changes	(2,047)	2,294
Cash and Cash Equivalents at End of Period	2,185	(4,762)
Analysis of Cash and Cash Equivalents:		
Cash and bank balances	7,202	2,700
Deposits with licensed financial institutions	348	237
Bank overdrafts	(5,365)	(7,699)
Cash and Cash Equivalents	2,185	(4,762)



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 6-MONTH PERIOD ENDED 31.12.2011	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	34,023	4,796	12,155	14,104	-	-	65,078
- Inter-segment	31	323	-	1	-	(355)	-
Total revenue	<u>34,054</u>	<u>5,119</u>	<u>12,155</u>	<u>14,105</u>	<u>-</u>	<u>(355)</u>	<u>65,078</u>
Results							
- Segment results	7,590	587	(2,344)	1,371	(3)		7,201
- Finance cost	(1,536)	-	(811)	(158)	-		<u>(2,505)</u>
Profit before taxation							4,696
- Taxation							<u>(3,140)</u>
Profit after taxation							1,556
Minority interest							<u>(405)</u>
Profit for the period attributable to equity holders of the Company							<u>1,151</u>
Assets							
Segment assets	129,294	13,462	84,471	25,171	204	(89,375)	163,227
Unallocated corporate assets							39
Consolidated Assets							<u>163,266</u>
Liabilities							
Segment liabilities	70,686	1,144	117,963	11,735	7,056	(79,777)	128,807
Unallocated corporate liabilities							1,598
Consolidated Liabilities							<u>130,405</u>

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



A7 Segmental Information (Cont'd)

UNAUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2011	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
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II) GEOGRAPHICAL SEGMENT

Revenue from External Customers

- Malaysia	34,023	4,796	-	13,435	-	-	52,254
- Indonesia	-	-	12,155	-	-	-	12,155
- Singapore	-	-	-	669	-	-	669
Total revenue	<u>34,023</u>	<u>4,796</u>	<u>12,155</u>	<u>14,104</u>	<u>-</u>	<u>-</u>	<u>65,078</u>

Non-current Assets

- Malaysia	29,404	1,424	-	14,284	30	-	45,142
- Indonesia	-	-	66,298	-	-	-	66,298
	<u>29,404</u>	<u>1,424</u>	<u>66,298</u>	<u>14,284</u>	<u>30</u>	<u>-</u>	<u>111,440</u>

III) INFORMATION ON MAJOR
EXTERNAL CUSTOMERS

Contribute equal or > 10% of revenue
for each business segment

- Single largest customer	22,302	2,372	9,926	9,940	-	-	-
- 2nd largest customer	-	-	1,923	3,647	-	-	-
- 3rd largest customer	-	-	-	-	-	-	-
- 4th largest customer	-	-	-	-	-	-	-

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



A7 Segmental Information (Cont'd)

AUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2010	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	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>
Results							
- 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>
Assets							
Segment assets	116,015	12,673	88,039	23,080	229	(84,289)	155,747
Unallocated corporate assets							38
Consolidated Assets							<u>155,785</u>
Liabilities							
Segment liabilities	62,135	1,429	125,733	9,804	7,081	(90,506)	115,676
Unallocated corporate liabilities							1,544
Consolidated Liabilities							<u>117,220</u>

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



A7 Segmental Information (Cont'd)

AUDITED RESULTS FOR FOR 6-MONTH PERIOD ENDED 31.12.2010	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	15,795	4,523	-	6,192	-	-	26,510
- Indonesia	-	-	2,687	-	-	-	2,687
- Singapore	-	-	-	3,425	-	-	3,425
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>
Non-current Assets							
- Malaysia	35,802	1,239	-	15,248	70	-	52,359
- Indonesia	-	-	73,554	-	-	-	73,554
	<u>35,802</u>	<u>1,239</u>	<u>73,554</u>	<u>15,248</u>	<u>70</u>	<u>-</u>	<u>125,913</u>
III) <u>INFORMATION ON MAJOR EXTERNAL CUSTOMERS</u>							
Contribute equal or > 10% of revenue for each business segment							
- 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 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 31 December 2011 up to 29 February 2012 other than as disclosed in Note A15 on Investment in Jointly Controlled Entities, Note B6 on Status of Corporate Proposal Announced, Note B8 on Loans and Borrowings and Note B9 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.

A12 Changes in Contingent Liabilities and Contingent Assets

	As at 31 Dec 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
<u>Unsecured</u>		
a) Bank guarantees in favour of third parties	4,086	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 31 Dec 2011 Unaudited RM'000	As at 30 June 2011 Audited RM'000
Approved, contracted but unpaid costs for the purchase of tools, machineries and equipment:		
- for the Oil Country Tubular Goods end-finishing business	1,096	316
- for the tubular handling business	1,247	210
	<u>2,343</u>	<u>526</u>

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



A14 Related Party Transactions

	3 months ended		6 months ended	
	31 Dec 2011 Unaudited RM'000	31 Dec 2010 Unaudited RM'000	31 Dec 2011 Unaudited RM'000	31 Dec 2010 Unaudited RM'000
Transactions by a subsidiary with one of its substantial corporate shareholders :-				
a) Rendering of threading services and sales	6,433	4,410	9,940	9,524
b) Purchase of materials	493	241	773	596
c) Rental and storage charges and fees	326	-	517	-
Transactions with companies in which certain Directors have interest :-				
a) Purchase of air ticket from a company	105	80	275	234
b) IT related services	29	68	59	81
c) Transportation, freight and handling services	403	124	765	767
d) Interest payable to a director	133	-	133	13

Interest payable to a director is in respect of the advances amounted to RM2,993,581 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 31 Dec 2011 Unaudited RM'000	As at 30 June 2011 Audited 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	
			31 Dec 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 31 Dec 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 31 Dec 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 approximately RM30.66 million an increase of about 70% when compared to the corresponding financial quarter. This was mainly due to better service performance reported by its tubular handling services, land drilling rig services and pipes threading services which have recorded increases in revenue ranging from 63% to 140% when compared to their respective revenue achievements in the corresponding financial quarter. These improved revenue performances have translated into a gross profit for the Group of RM7.79 million as compared to a mere RM0.4 million achieved in the corresponding financial quarter. With limited increases recorded for administrative and other operating expenses arising from greater work volume, the Group registered pre-tax profit and net profit for the period of RM3.30 million and RM1.90 million respectively as compared to pre-tax loss and net loss for the period of RM3.25 million and RM3.66 million respectively incurred in the corresponding financial quarter.

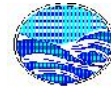
The financial improvement as elaborated above has further enhanced the performance of the Group for the year-to-date period ended 31 December 2011 with a pre-tax profit of RM4.70 million as compared to a loss before taxation incurred in the corresponding year-to-date period of approximately RM5.94 million. The profit attributable to equity holders of the Company for the Group stood at RM1.15 million when compared to a loss position of RM6.45 million chalked up in the corresponding year-to-date period ended 31 December 2010.

For the current financial quarter, the tubular handling services' performance improved substantially with a segment profit of about RM2.69 million when compared to a segment loss reported in the corresponding financial quarter. This was mainly attributable to surge in volume of work orders that resulted in greater utilisation of tools and equipment as well as existing pool of technician and specialists as evidenced by the increase in revenue for the current financial quarter of about 63% to RM14.19 million when compared to the corresponding financial quarter. The aforesaid continuous improvement of its performance for the current financial quarter has enabled the tubular handling services to further enhance its segment profit for the current year-to-date period to approximately RM7.59 million, an increase of about 1580% when compared to approximately RM0.45 million reported in the corresponding year-to-date period.

The inspection and maintenance services recorded a reduction in segment profit to RM0.35 million from RM0.66 million registered in the corresponding financial quarter due principally to decline in revenue earned and lower gross profit margin for work performed during the current financial quarter. For the current year-to-date period, its segment profit has shown a decline of approximately 74% to RM0.59 million from a segment profit of RM2.25 million registered in the corresponding year-to-date period, which was boosted by a gain on disposal or de-recognition of a non-current assets held for sale of approximately RM1.48 million.

The land rig services reported an increase in revenue of approximately 140% to about RM4.98 million when compared to the corresponding financial quarter due principally to greater drilling and rental revenues were derived from drilling project at Kalimantan which was completed in November 2011 and an active charter arrangement as compared to the corresponding financial quarter. This has translated into a lower segment loss of approximately RM0.33 million, an improvement of about 83% over the segment loss of approximately RM1.97 million incurred in the corresponding financial quarter. The rigs were in active revenue generation mode under the aforesaid drilling project as well as charter arrangement for substantial part of the current year-to-date period, hence resulted in a surge in revenue from about RM2.69 million registered in the corresponding year-to-date period to approximately RM12.16 million. This improvement has enabled the land rig services to produce a gross profit of approximately RM0.54 million and lower segment loss of about RM2.34 million though it was affected by a charge of net unrealised loss on foreign exchange of approximately RM1.00 million during the current year-to-date period, as opposed to a gross loss and segment loss of about RM5.05 million and RM5.66 million respectively suffered in the corresponding year-to-date period.

The pipes threading services recorded about 100% jump in revenue to approximately RM8.84 million with a substantial segment profit of approximately RM1.96 million when compared to the corresponding financial quarter during which it registered a segment loss of about RM0.40 million. The aforesaid substantially improved performance has enabled the pipes threading services to turn-in a cumulative segment profit of approximately RM1.37 million for the current year-to-date period as compared to a segment loss of about RM0.38 million recorded in the corresponding year-to-date period.



B2 Variation of Results Against Preceding Quarter

For the current financial quarter under review, the Group registered a total revenue of approximately RM30.66 million a decline of about 11% as compared to the preceding financial quarter. This reduction was mainly attributable to the decrease in revenue of about 28% to approximately RM14.19 million for its tubular handling services while its land drilling rig services turned in a lower turnover of about RM4.98 million, a decline of approximately 31% when compared to the preceding financial quarter's revenue of RM7.17 million. The effect resulted from the aforesaid decline was principally cushioned by the substantially improved gross profit margin and revenue achieved by the pipes threading services during the current financial quarter, hence enabling the Group to register a gross profit of approximately RM7.79 million, little change from that recorded in the preceding financial quarter. With a net gain on foreign exchange position of approximately RM0.20 million for the current financial quarter as opposed to a net loss on foreign exchange of about RM0.96 recognised in the preceding financial quarter as well as lower loss on disposal of machinery, the Group chalked up a pre-tax profit of approximately RM3.30 million, an increase of about 136% over the pre-tax profit of RM1.40 million registered in the preceding financial quarter. The net profit for the period and net profit attributable to equity holders of the Company for the current financial quarter stood at approximately RM1.90 million and RM1.15 million respectively, as compared to net loss for the period of approximately RM0.35 million and net profit attributable to equity holders of the Company of approximately RM3,000 for the preceding financial quarter.

The tubular handling services' segment profit declined by about 45% to approximately RM2.69 million for the current financial quarter, as compared to about RM4.9 million reported for the preceding financial quarter due mainly to reduction in average revenue earned for rigs serviced as there were fewer tubular handling tool and equipments deployed for rigs serviced during the current financial quarter while lower work orders for third party and specialist services were received.

The inspection and maintenance services reported increase in segment profit from approximately RM0.24 million to RM0.35 million for the current financial quarter as a result of higher volume of work orders and revenue.

The land rig services reported a reduction in segment loss of approximately 83% from about RM2.01 million recorded in the preceding financial quarter to approximately RM0.33 million despite of lower revenue earned during the current financial quarter, as there was no loss on disposal while it recognised a net gain on foreign exchange of approximately RM0.30 million as opposed to the combined effects of a loss on disposal and a charge for net loss on foreign exchange recorded in the preceding financial quarter totalled to approximately RM2.1 million.

The pipe threading services recorded a substantial improvement in its performance during the current financial quarter with a segment profit of approximately RM1.96 million as compared to a segment loss of about RM0.59 million incurred in the preceding quarter due principally to greater volume of pipes threaded and serviced.

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.

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



B4 Variance from Profit Forecast and Profit Guarantee

This is not applicable to the Group.

B5 Income Tax Expense

	3 months ended		6 months ended	
	31 Dec 2011 Unaudited RM'000	31 Dec 2010 Unaudited RM'000	31 Dec 2011 Unaudited RM'000	31 Dec 2010 Unaudited RM'000
Taxation based on results				
Malaysian taxation				
- Current financial period	1,395	274	2,935	762
- Under/(Over) provision in the previous years	-	134	41	104
Foreign Taxation	-	-	-	-
Deferred taxation - under provision in the previous years	-	-	164	-
	<u>1,395</u>	<u>408</u>	<u>3,140</u>	<u>866</u>

Domestic income tax is calculated at the Malaysian Statutory tax rate of 25% (31.12.2010: 25%) of the estimated assessable profit for the period. Taxation for other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

B6 Status of Corporate Proposal Announced

The corporate proposal announced that is pending implementation and completion as at 22 February 2012 (being a date not earlier than 7 days from the date of issue of the quarterly report) is as follows:-

Proposed disposal of 51% equity interest in Sobena Offshore Inc Sdn Bhd ("Sobena")

The Company has on 31 January 2012 entered into a conditional shares sale agreement ("SSA") with Marubeni-Itochu Tubulars Asia Pte Ltd and Hendroff Holdings Sdn Bhd ("Purchasers") to dispose of its 51% equity interest comprising 4,335,000 ordinary shares of RM1.00 each in Sobena for a total cash consideration of RM14 million (hereinafter referred to as the "Proposed Disposal").

The Proposed Disposal is subject to the following being obtained:-

- i) approval of the shareholders of the Company at the forthcoming extraordinary general meeting; and
- ii) any other approvals, waivers and/or consents from any other relevant authorities and/or persons, where required.

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



B7 Realised and Unrealised Profits / (Losses)

	Current Year - Quarter Ended	
	31 Dec 2011	30 Sept 2011
	Unaudited	Unaudited
	RM'000	RM'000
Total retained profits / (accumulated losses) of the Company and its subsidiaries		
- Realised	(20,198)	(21,271)
- Unrealised	(8,678)	(8,753)
Total retained profits / (accumulated losses) as per consolidated accounts	<u>(28,876)</u>	<u>(30,024)</u>

B8 Loans and borrowings

	As at	As at
	31 Dec 2011	30 June 2011
	Unaudited	Audited
	RM'000	RM'000
a) Short term borrowings		
Repayable within twelve months		
- Secured	24,292	21,962
- Unsecured	39,360	40,389
	<u>63,652</u>	<u>62,351</u>
b) Long term borrowings		
Repayable after twelve months		
- Secured	24,390	26,266
- Unsecured	-	-
Portion repayable after one year	<u>24,390</u>	<u>26,266</u>
Borrowings denominated in foreign currency:		
United States Dollars (USD'000)	14,414	14,840
Ringgit Malaysia equivalent (RM'000)	<u>45,667</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 ("CLO Loan") 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.

The Company has since the last financial year engaged with the lender of the CLO Loan with a view for an agreement to restructure and repay the term loan payable in January 2012. The lender has on 5 January 2012 approved the settlement proposal submitted by the Company on 26 September 2011 ("CLO Proposal") and the CLO Proposal is currently pending finalisation of documentation with the lender. An announcement to Bursa will be made upon execution of the relevant and required agreement and documents with the lender.

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



B9 Changes in Material Litigation

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

On 22 May 2007, the Company announced that the Company, Dato' Chee Peck Kiat @ Chee Peck Jan (a shareholder and director of the Company and a director of KSTFS) and KSTFS (collectively be referred to as the "Defendants") had on 18 May 2007 been served with a Writ and Statement of Claim filed by Gagie and KSTGSB (collectively be referred to as the "Plaintiffs") in the High Court of Malaya at Kuala Lumpur (Suite No. D8-22-613-2007 or "the Suit") as well as an ex-parte injunction application by the Plaintiffs against the Defendants. The Suit was commenced arising from the termination by the Company of the Shareholders' Agreement dated 19 December 2005 entered into between Gagie and the Company to govern the rights of the parties in relation to KSTGSB on 5 April 2007.

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.

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



B10 Dividend

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

B11 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		6 months ended	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	Unaudited	Unaudited	Unaudited	Unaudited
- Profit / (Loss) attributable to equity holders of the parent (RM'000)	1,148	(3,400)	1,151	(6,446)
- Weighted average number of ordinary shares in issue ('000)	143,027	143,027	143,027	132,500
Basic profit / (loss) per share (sen)	<u>0.80</u>	<u>(2.38)</u>	<u>0.80</u>	<u>(4.86)</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
29 February 2012