

10. ACCOUNTANTS' REPORT
(Prepared for inclusion in the Prospectus)



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The Board of Directors
Kencana Petroleum Berhad
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47000 Sungai Buloh
Selangor Darul Ehsan

12 October 2006

Dear Sirs

Accountants' Report

1 Introduction

This report has been prepared by Messrs KPMG, an approved company auditor, for inclusion in the Prospectus of Kencana Petroleum Berhad ("Kencana Petroleum" or "the Company") to be dated 21 November 2006 in connection with the listing of Kencana Petroleum on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

2 General information

2.1 Background

Kencana Petroleum was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 28 September 2004 under the name of Radiant Horizon Sdn Bhd. On 12 August 2005, the Company changed its name to Kencana Petroleum Sdn Bhd. Subsequently on 14 September 2005, Kencana Petroleum was converted to a public limited company under the name of Kencana Petroleum Berhad and has assumed its present name since. The principal activity of Kencana Petroleum is that of investment holding. Its subsidiaries are providers of integrated engineering and fabrication of production facilities for the oil and gas industry.

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2.2 Share capital

At the date of incorporation, Kencana Petroleum's authorised, issued and fully paid-up share capital was RM2.00 comprising 2 ordinary shares of RM1.00 each. Subsequently, the issued and fully paid-up share capital was increased to RM60,000,000 comprising 600,000,000 ordinary shares of RM0.10 each as follows:-

Date of issue	Number of ordinary shares	Issue price per ordinary share RM	Purpose	Issued and fully paid-up share capital (Cumulative) RM'000
28 September 2004	2	1.00	Subscribers' shares	*
24 May 2005	20	0.10	Subdivision of shares	**
1 August 2005	485,699,980	0.10	Acquisition of Kencana HL Sdn Bhd	48,570
1 August 2005	114,300,000	0.10	Acquisition of Kencana Bestwide Sdn Bhd	60,000
11 October 2006	80,000,000	0.25	Capitalisation of advances from Khasera Baru Sdn Bhd	68,000

Pursuant to the listing scheme, the issued and fully paid-up share capital of Kencana Petroleum will be increased to RM88,000,000 comprising 880,000,000 ordinary shares of RM0.10 each.

In addition, an employees' share option scheme is to be established for the granting of options to the eligible executive directors and employees of the Kencana Petroleum Group to subscribe for new Kencana Petroleum shares representing up to 5.00% of the enlarged issued and paid-up share capital of Kencana Petroleum at any point in time during the subsistence of the scheme.

* Represents 2 ordinary shares of RM1.00 each

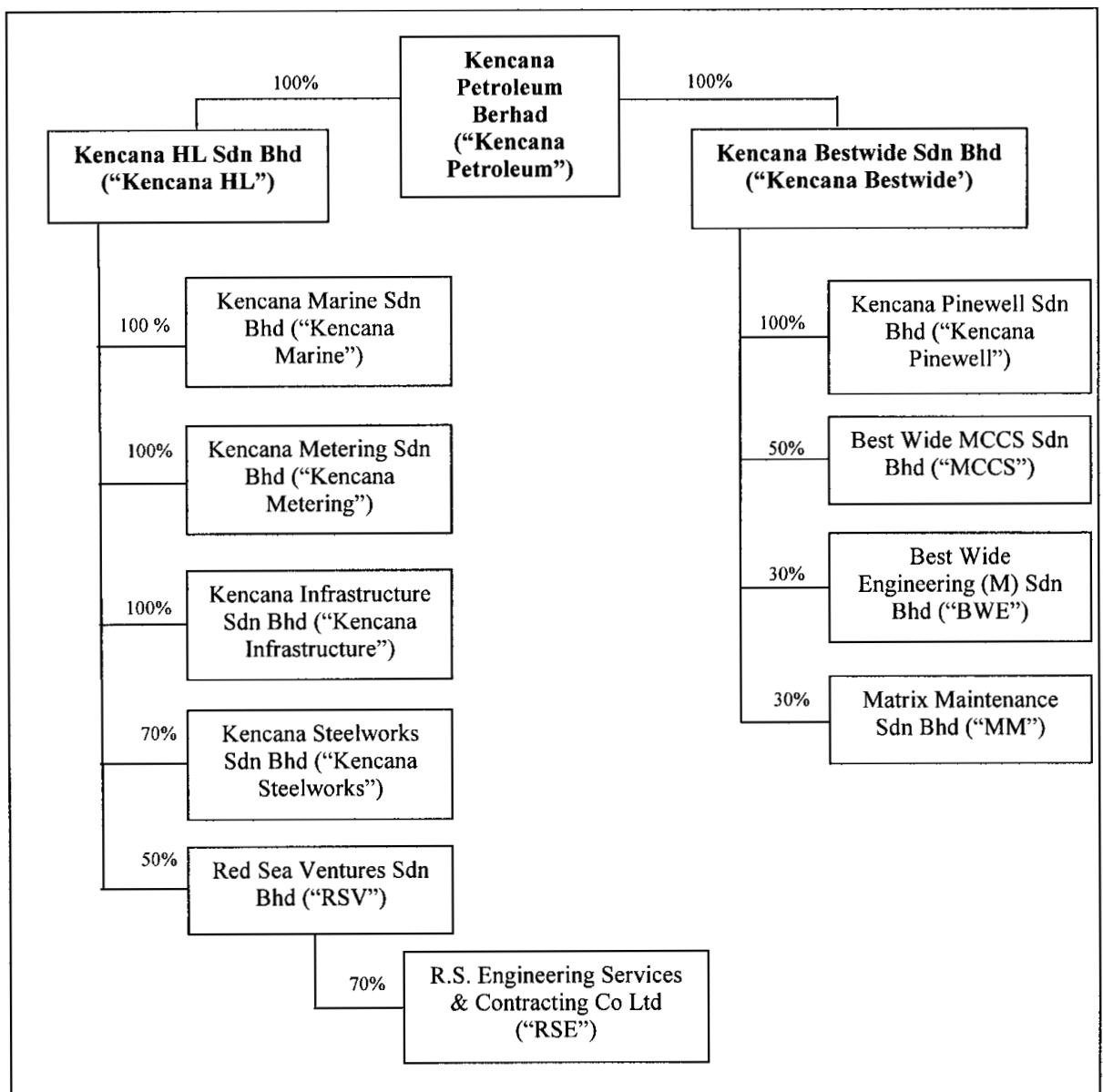
** Represents 20 ordinary shares of RM0.10 each

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2.3 Kencana Petroleum Group structure

The Group structure of Kencana Petroleum Group, its jointly controlled entities and associates is as follows:



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3 Listing scheme

In conjunction with the listing of and quotation for the entire issued and paid up share capital of Kencana Petroleum on the Main Board of Bursa Securities, Kencana Petroleum will undertake the following:

3.1 Capitalisation of advances

Capitalisation of advances by Khasera Baru Sdn Bhd ("Khasera Baru") to Kencana Petroleum amounting to RM20,000,000 was completed by way of issuance of 80,000,000 Kencana Petroleum shares to Khasera Baru at an issue price of RM0.25 per share.

3.2 Public Issue

The Public Issue is offered at the IPO Price of RM0.41 per Issue Share, payable in full upon application, and will be allocated in the following manner:

- (i) 44,000,000 Issue Shares, representing 5.00% of the enlarged issued and paid up share capital of Kencana Petroleum, to be allocated via ballot, will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions whereby 30.00% will be set aside for Bumiputera investors;
- (ii) 141,000,000 Issue Shares, representing approximately 16% of the enlarged issued and paid-up share capital of Kencana Petroleum, by way of private placement to selected investors; and
- (iii) 15,000,000 Issue Shares, representing approximately 2% of the enlarged issued and paid-up share capital of Kencana Petroleum, will be made for application by eligible directors and employees, and persons who have contributed to the success of the Kencana Petroleum Group.

3.3 Listing and quotation

Listing of and quotation for the entire issued and paid-up share capital of Kencana Petroleum comprising 880,000,000 ordinary shares of RM0.10 each on the Main Board of Bursa Securities.

3.4 Employees Share Option Scheme (ESOS)

In conjunction with its proposed listing, an employees' share option scheme is to be established for the granting of options to the eligible executive directors and employees of the Kencana Petroleum Group to subscribe for new Kencana Petroleum shares representing up to 5.00% of the enlarged issued and paid-up share capital of Kencana Petroleum at any point in time during the subsistence of the scheme.

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4 Information on subsidiaries, jointly controlled entities and associates

The subsidiaries, jointly controlled entities and associates of Kencana Petroleum at the date of this report and their principal activities are as follows:

Name of company	Date and place of incorporation	Authorised share capital (RM unless otherwise stated)	Issued and paid up capital (RM unless otherwise stated)	Effective equity interest %	Principal activities
Subsidiaries of Kencana Petroleum					
Kencana HL	9.4.1982 Malaysia	25,000,000	20,000,000	100	Integrated engineering and fabrication of production facilities
Kencana Bestwide	28.6.1995 Malaysia	5,000,000	5,000,000	100	EPCC, design and engineering and project management
Subsidiaries of Kencana HL					
Kencana Marine	28.3.2001 Malaysia	1,000,000	1,000,000	100	Operation and management of fabrication yard
Kencana Metering	28.3.2001 Malaysia	500,000	250,000	100	Pipeline construction, process skid systems and metering works
Kencana Infrastructure	7.10.2002 Malaysia	1,000,000	1,000,000	100	Specialised fabrication and infrastructure construction
Kencana Steelworks	16.6.2005 Malaysia	100,000	1,000	70	Dormant

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4 Information on subsidiaries, jointly controlled entities and associates (continued)

Jointly controlled entity of Kencana HL Sdn Bhd					
RSV	26.10.2004 Malaysia	100,000	2	50	Investment holding company and management services
and its subsidiary					
RSE	4.5.2005 Sudan	-	SD20,000*	35	Operation and management of fabrication yard
Subsidiary of Kencana Bestwide Sdn Bhd					
Kencana Pinewell	14.6.1999 Malaysia	500,000	500,000	100	Electrical and instrumentation services
Jointly controlled entity of Kencana Bestwide					
MCCS	25.9.1997 Malaysia	100,000	100	50	Hook-up and commissioning services
Associates of Kencana Bestwide					
BWE	7.10.1994 Malaysia	1,000,000	1,000,000	30	Design and engineering services
MM	8.9.2000 Malaysia	500,000	300,000	30	Valve testing and maintenance

* SD represents Sudanese Dinar.

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5 Financial statements and auditors

The current financial year end of all companies in the Kencana Petroleum Group is 31 July 2006.

The auditors who audited the financial statements of Kencana Petroleum Berhad and its subsidiaries for the financial years/ period under review incorporated in the report are as follows:

Company	Financial year/ period ended	Auditors
Kencana Petroleum	28 September 2004 to 31 July 2005	KPMG
	1 August 2005 to 31 July 2006	KPMG
Kencana HL	1 August 2003 to 31 July 2004	C.S. Tan and Associates
	1 August 2004 to 31 July 2005	KPMG
	1 August 2005 to 31 July 2006	KPMG
Kencana Marine	1 August 2003 to 31 July 2004	C.S. Tan and Associates
	1 August 2004 to 31 July 2005	KPMG
	1 August 2005 to 31 July 2006	KPMG
Kencana Metering	1 August 2003 to 31 July 2004	C.S. Tan and Associates
	1 August 2004 to 31 July 2005	KPMG
	1 August 2005 to 31 July 2006	KPMG
Kencana Infrastructure	1 August 2003 to 31 July 2004	C.S. Tan and Associates
	1 August 2004 to 31 July 2005	KPMG
	1 August 2005 to 31 July 2006	KPMG
Kencana Steelworks	16 June 2005 to 31 July 2006	KPMG
Kencana Bestwide	1 January 2003 to 31 December 2003	Skrastin Lim
	1 January 2004 to 31 December 2004	Skrastin Lim
	1 January 2005 to 31 December 2005	KPMG
	1 January 2006 to 31 July 2006	KPMG
Kencana Pinewell	1 January 2003 to 31 December 2003	Ismail Chong & Associate
	1 January 2004 to 31 December 2004	Ismail Chong & Associate
	1 January 2005 to 31 December 2005	KPMG
	1 January 2006 to 31 July 2006	KPMG

The auditors' reports of all companies for the relevant financial years/period under review were not subject to any qualification.

The auditors' reports on the financial statements of the Company for the financial period ended 31 July 2005 and for the financial year ended 31 July 2006 are set out in Appendix 1 and Appendix 2 respectively.

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5.1 Accounting policies and standards

The accounting policies adopted in the preparation of this report are set out in Section 14.0 and are consistent with the accounting policies adopted by Kencana Petroleum Berhad and its subsidiaries ("Kencana Petroleum Group") in their latest audited financial statements.

There has been no change in accounting policies of the Kencana Petroleum Group and its subsidiaries during the financial years/ periods under review.

The financial information presented in this report is based on the audited financial statements of Kencana Petroleum and its subsidiaries, which have been prepared in accordance with applicable approved accounting standards in Malaysia.

5.2 Dividends

Kencana Petroleum has not paid or declared any dividends since its incorporation on 28 September 2004. Except as detailed below, the subsidiaries have not paid or declared dividends for the financial years/periods under review:

Financial year	Company	Issued and paid up share capital of RM1.00 each	Gross dividend rate	Net dividend RM
31 July 2005	Kencana HL	20,000,000	32.4% tax exempt	6,476,000
31 July 2005	Kencana Bestwide	1,500,000	30.3% tax exempt	454,000
31 December 2005	Kencana Bestwide	1,500,000	99.1% less tax	1,069,911

5.3 Audited financial statements

The acquisition of Kencana HL and Kencana Bestwide by Kencana Petroleum Berhad was only completed subsequent to the financial year ended 31 July 2006. Accordingly, the Kencana Petroleum Berhad Group audited financial statements were not prepared as at 31 July 2006. The summarised audited financial statements of the individual companies in the Group are shown in Section 6 to 13.

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6 Kencana Petroleum Berhad**6.1 Summarised results**

We set out below the summarised results of Kencana Petroleum Berhad for the financial period/year ended 31 July 2005 and 31 July 2006.

	Period from 28 September 2004 to 31 July 2005 RM'000	For the year ended 31 July 2006 RM'000
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Loss before taxation	(4)	(3)
Tax expense	-	-
Net loss for the period/year	(4)	(3)
Effective tax rate (%)	-	-
Gross margin (%)	-	-
Pre-tax profit margin (%)	-	-
NTA per ordinary share (RM)	(200.0)	-
Current ratio (times)	-	1.0
Gearing ratio (times)	-	-
Interest coverage ratio (times)	-	-
Gross dividend rate (%)	-	-
After tax return on shareholders' funds (%)	-	-
Weighted average number of ordinary shares ('000)	*	600,000
Earnings per share (RM)		
- Gross	(200.00)	-
- Net	(200.00)	-

* Denotes 20 ordinary shares

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6.2 Summarised balance sheets

We set out below the summarised balance sheets of Kencana Petroleum Berhad as at 31 July 2005 and 31 July 2006.

	Notes	← As at 31 July →	
		2005 RM'000	2006 RM'000
Investments	6.2.1	-	60,000
Long term advances	6.2.2	-	12,999
Current assets			
Other receivables		-	1,000
Cash and cash equivalents		*	6,001
		*	7,001
Current liabilities			
Other payables		4	7
Net current (liabilities)/assets		(4)	6,994
		(4)	79,993
Financed by :-			
Share capital		*	60,000
Accumulated losses		(4)	(7)
Shareholders' funds		(4)	59,993
Long term liabilities:-			
Amount owing to holding company	6.2.3	-	20,000
		(4)	79,993

*Denotes RM2.00

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6.2.1 Investments

	← As at 31 July →	
	2005	2006
	RM'000	RM'000
Unquoted shares, at costs	-	60,000

During the financial year ended 31 July 2006, the Company acquired the entire equity interest in Kencana HL Sdn Bhd (formerly known as H.L Engineering (M) Sdn Bhd) for a total purchase consideration of RM48,569,998 satisfied by the issuance of 485,699,980 new ordinary shares of RM0.10 each in the Company.

The Company also acquired the entire equity interest in Kencana Bestwide Sdn Bhd (formerly known as Best Wide Matrix Sdn Bhd) for a total purchase consideration of RM11,430,000 satisfied by the issuance of 114,300,000 new ordinary shares of RM0.10 each in the Company.

For the financial year ended 31 July 2006, the results of both Kencana HL Sdn Bhd and Kencana Bestwide Sdn Bhd were not consolidated in the financial statements of Kencana Petroleum Berhad as the Company has not obtained control over the financial and operating policies of Kencana HL Sdn Bhd and Kencana Bestwide Sdn Bhd subject to fulfillment of all the conditions precedent as set out in the Sale of Shares Agreements and the Supplementary Agreements respectively. Control over the financial and operating policies of Kencana HL Sdn Bhd and Kencana Bestwide Sdn Bhd was obtained subsequent to the financial year ended 31 July 2006.

6.2.2 Long term advances

Long term advances relate to the amount due from Kencana HL Sdn Bhd (formerly known as H.L Engineering (M) Sdn Bhd), a company incorporated in Malaysia. The advances are non-trade in nature, interest free, unsecured and are not expected to be repayable within the next twelve (12) months.

6.2.3 Amount owing to holding company

The holding company is Khasera Baru Sdn Bhd, a private company limited by shares incorporated in Malaysia.

The amount due to holding company is interest free, unsecured, and is not repayable within the next twelve (12) months.

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6.3 Statements of changes in equity

	Share capital	Accumulated losses	Total
	RM'000	RM'000	RM'000
At 28 September 2004 (date of incorporation)	*	-	-
Loss for the period	-	(4)	(4)
At 31 July 2005/1 August 2005	*	(4)	(4)
Issue of shares	60,000	-	60,000
Loss for the year	-	(3)	(3)
At 31 July 2006	60,000	(7)	59,993

*Denotes RM2.00

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6.4 Cash flow statements

	Period from 28 September 2004 to 31 July 2005 RM'000	For the year ended 31 July 2006 RM'000
Cash flows from operating activities		
Loss before taxation	(4)	(3)
Changes in working capital:		
Other receivables	-	(1,000)
Other payables	4	3
Net cash used in operating activities	-	(1,000)
Cash flows from financing activities		
Subscribers' shares	*	-
Advances from Khasera Baru	-	20,000
Long term advances	-	(12,999)
Net cash generated from financing activities	*	7,001
Net increase in cash and cash equivalents	*	6,001
Cash and cash equivalents at beginning of the period/ year	-	-
Cash and cash equivalents at end of period/ year	*	6,001
Cash and cash equivalents comprise:-		
Cash and bank balances	*	6,001

* Denotes RM2.00

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7 Kencana HL Sdn Bhd (formerly known as H.L Engineering (M) Sdn Bhd)

7.1 Summarised results

	Notes	← For the year ended 31 July →		
		2004 RM'000	2005 RM'000	2006 RM'000
Revenue	7.1.1	146,664	225,553	385,297
Contract costs		(119,363)	(193,505)	(342,285)
Gross profit		27,301	32,048	43,012
Operating profit		18,081	19,622	29,245
Interest expense		(1,024)	(2,403)	(4,414)
Interest income		129	173	654
Profit before taxation		17,186	17,392	25,485
Taxation		(3,877)	(3,879)	(816)
Profit after taxation		13,309	13,513	24,669
Effective tax rate (%)	7.1.2	22.6	22.3	3.2
Gross margin (%)		18.6	14.2	11.2
Pre-tax profit margin (%)		11.7	7.7	6.6
NTA per ordinary share (RM)		1.9	2.2	3.5
Current ratio (times)		1.3	1.0	1.0
Gearing ratio (times)		0.7	1.5	1.3
Interest coverage ratio (times)		17.7	8.2	6.6
Gross dividend rate (%)		-	32.4	-
After tax return on shareholders' funds (%)		35.6	30.4	35.7
Weighted average number of ordinary shares ('000)		20,000	20,000	20,000
Earnings per share (RM)	7.1.3			
- Gross		0.86	0.87	1.27
- Net		0.67	0.68	1.23

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Notes to summary of results**7.1.1 Revenue**

	← For the year ended 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Revenue			
Oil and gas industry	57,986	159,511	348,147
Non oil and gas industry	88,678	66,042	37,150
	146,664	225,553	385,297
Growth rate (%)	171.3	53.8	70.8

(Revenue in 2003: RM54,050,000)

7.1.2 Effective tax rate

The effective tax rate in 2004 and 2005 were lower than the statutory tax rate due to the availability of reinvestment allowances.

The effective tax rate in 2006 was significantly lower than the statutory tax rate due to the availability of reinvestment allowances and the reversal of the over-provision of prior year foreign tax expense.

7.1.3 Earnings per share

The basic gross and net earnings per share are calculated based on the profit before and after taxation attributable over the weighted average number of ordinary shares outstanding during the financial year.

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7.2 Summarised balance sheets

	Note	As at 31 July		
		2004 RM'000	2005 RM'000	2006 RM'000
Property, plant and equipment	7.2.1	35,151	73,202	100,538
Investments in subsidiaries		2,350	2,250	2,251
Investment in joint venture		-	*	*
		37,501	75,452	102,789
Current assets				
Trade and other receivables	7.2.2	85,224	97,076	102,867
Tax recoverable		-	-	10,461
Cash and cash equivalents	7.2.3	17,070	53,279	43,790
		102,294	150,355	157,118
Current liabilities				
Trade and other payables	7.2.4	63,771	99,358	78,876
Borrowings	7.2.5	13,852	51,102	75,406
Taxation		2,696	1,569	2,218
		80,319	152,029	156,500
Net current assets/(liabilities)		21,975	(1,674)	618
		59,476	73,778	103,407
Financed by :-				
Share capital		20,000	20,000	20,000
Retained profits		17,414	24,451	49,120
Shareholders' funds		37,414	44,451	69,120
Deferred and long term liabilities :-				
Borrowings	7.2.5	11,178	14,530	12,790
Deferred tax liabilities	7.2.6	884	2,021	2,404
Amount owing to shareholders	7.2.7	3,000	8,366	-
Amount owing to holding company	7.2.8	7,000	4,410	-
Other payables	7.2.9	-	-	19,093
		22,062	29,327	34,287
		59,476	73,778	103,407

* Denotes RM1.00

Note: The Company does not have inventories. Spares and consumables are expensed off to the income statement.

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Notes to summarised balance sheets**7.2.1 Property, plant and equipment**

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Freehold land	-	750	750
Leasehold land	6,435	15,969	15,746
Buildings and structures	19,530	34,982	55,867
Computers, equipment, air conditioner, furniture and fixtures	3,178	4,884	5,533
Motor vehicles	1,857	3,923	3,851
Plant and machinery	4,151	12,694	18,791
	<u>35,151</u>	<u>73,202</u>	<u>100,538</u>

7.2.2 Trade and other receivables

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Trade receivables	35,399	43,726	34,844
Less: Allowance for doubtful debts	(86)	(157)	(1,129)
	<u>35,313</u>	<u>43,569</u>	<u>33,715</u>
Other receivables, deposits and prepayments	1,424	5,565	7,249
Amount due from contract customers	47,636	45,131	55,313
Amount due from subsidiaries	851	-	1,603
Amount due from jointly controlled entity	-	2,811	4,987
	<u>85,224</u>	<u>97,076</u>	<u>102,867</u>
Trade receivables turnover period (months)	<u>2.9</u>	<u>2.3</u>	<u>1.1</u>

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7.2.2 Trade and other receivables (continued)

		← As at 31 July 2006 →						
		← Within credit period →			← Exceed credit period →			
Credit period		0-30 days	31-60 days	61-90 days	3-6 months	6-12 months	> 12 months	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	30-60 days	10,314	10,869	4,587	1,525	188	7,361	34,844
% of trade receivables		29.6	31.2	13.2	4.4	0.5	21.1	100.0

Retention sum

Included in trade receivables are retention sums of RM7,189,000 for various projects, which will be collected after issuance of the respective projects' Statement of Final Accounts.

7.2.3 Cash and cash equivalents

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Cash and bank balances	13,084	35,121	17,573
Deposits placed with licensed banks	3,986	18,158	26,217
	17,070	53,279	43,790

7.2.4 Trade and other payables

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Trade payables	33,650	54,628	56,022
Amount due to contract customers	-	2,394	5,245
Contract advances	27,001	26,674	3,332
Amount owing to subsidiaries	2,043	11,670	8,388
Other payables and accrued expenses	1,077	3,992	5,889
	63,771	99,358	78,876
Trade payables turnover period (months)	3.4	3.4	2.0

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7.2.4 Trade and other payables (continued)

		As at 31 July 2006						
		← Within credit period →			← Exceed credit period →			
Credit period		0-30 days	31-60 days	61-90 days	3-6 months	6-12 months	> 12 months	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	90 days	3,233	4,289	18,370	24,638	3,935	1,557	56,022
% of trade payables		5.8	7.6	32.8	44.0	7.0	2.8	100.0

7.2.5 Borrowings

		← As at 31 July →		
		2004	2005	2006
		RM'000	RM'000	RM'000
Short term borrowings				
Bank overdrafts	- secured	1,175	5,562	3,581
Short term loans	- secured	-	-	13,655
Bankers acceptances	- secured	8,161	14,315	21,261
Trust receipts	- secured	-	-	1,126
Revolving credits		-	25,000	30,000
Term loans	- secured	3,665	4,021	2,701
Hire purchase liabilities		851	2,204	3,082
		13,852	51,102	75,406
Long term borrowings				
Term loans	- secured	9,160	9,406	6,698
Hire purchase liabilities		2,018	5,124	6,092
		11,178	14,530	12,790
		25,030	65,632	88,196

7.2.6 Deferred tax liabilities

		← As at 31 July →		
		2004	2005	2006
		RM'000	RM'000	RM'000
Taxable temporary differences		884	2,021	2,404

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7.2.7 Amount owing to shareholders

The amount owing to shareholders is interest free, unsecured and is not repayable within the next twelve (12) months.

7.2.8 Amount owing to holding company

The holding company is Khasera Baru Sdn Bhd, a private company limited by shares incorporated in Malaysia.

The amount owing to holding company is interest free, unsecured and is not repayable within the next twelve (12) months.

7.2.9 Other payables

The amounts are due to Kencana Petroleum Berhad, Kencana Bestwide Sdn Bhd and Best Wide Engineering (M) Sdn Bhd of RM12,999,000, RM5,519,000 and RM575,000 respectively.

The amounts are interest free, unsecured and are not repayable within the next twelve (12) months.

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
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12 October 2006

7.3 Statements of changes in equity

	Share capital RM'000	Retained profits RM'000	Total RM'000
At 1 August 2003			
As previously stated	12,500	14,692	27,192
Prior years adjustments			
FRS 111 2004	-	(3,056)	(3,056)
FRS 112 2004	-	(31)	(31)
Restated balance	12,500	11,605	24,105
Net profit for the year			
As previously stated	-	11,899	11,899
Prior years adjustments			
FRS 111 2004	-	1,608	1,608
FRS 112 2004	-	(198)	(198)
Restated balance	-	13,309	13,309
Bonus issue	7,500	(7,500)	-
At 31 July 2004/1 August 2004			
As previously stated	20,000	19,091	39,091
Prior years adjustments			
FRS 111 2004	-	(1,448)	(1,448)
FRS 112 2004	-	(229)	(229)
Restated balance	20,000	17,414	37,414
Net profit for the year	-	13,513	13,513
Dividend	-	(6,476)	(6,476)
At 31 July 2005/1 August 2005	20,000	24,451	44,451
Net profit for the year	-	24,669	24,669
At 31 July 2006	20,000	49,120	69,120

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

7.4 Cash flow statements

	← For the year ended 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Cash flows from operating activities			
Profit before taxation	17,186	17,392	25,485
Adjustment for:			
Allowance for doubtful debts	-	838	983
Depreciation	1,983	3,064	5,078
Loss on disposal of plant and equipment	1	-	-
Interest expense	1,024	2,403	4,414
Interest income	(129)	(173)	(654)
Reversal of allowance for doubtful debts	-	(53)	(11)
Unrealised loss on foreign exchange	-	76	-
Unrealised gain on foreign exchange	-	(161)	-
Gain on disposal of plant and equipment	(10)	(22)	(26)
Operating profit before working capital changes	20,055	23,364	35,269
Changes in working capital:			
Trade and other receivables	(45,737)	(10,319)	(13,831)
Trade and other payables	37,486	29,654	(20,482)
Cash generated from operations	11,804	42,699	956
Interest paid	(1,024)	(2,403)	(4,414)
Income taxes paid	(473)	(3,869)	(3,178)
Net cash generated from/(used in) operating activities	10,307	36,427	(6,636)
Cash flows from investing activities			
Purchase of property, plant and equipment	(12,793)	(35,300)	(28,364)
Interest received	129	173	654
Proceeds from disposal of subsidiaries	-	100	-
Proceeds from disposal of plant and equipment	203	22	443
Acquisition of shares in subsidiaries	(2,250)	-	-
Net cash used in investing activities	(14,711)	(35,005)	(27,267)

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
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7.4 Cash flow statements (continued)

	← For the year ended 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Cash flows from financing activities			
Proceeds from drawdown of borrowings	15,826	36,155	26,727
Repayment of borrowings	(6,828)	(5,755)	(6,649)
Increase in pledged deposits	(3,986)	(14,172)	(8,059)
Long term advances	-	-	19,093
Repayment of advances from shareholders	-	-	(12,776)
Net cash generated from financing activities	5,012	16,228	18,336
Net increase/(decrease) in cash and cash equivalents	608	17,650	(15,567)
Cash and cash equivalents at beginning of year	11,301	11,909	29,559
Cash and cash equivalents at end of year	11,909	29,559	13,992
Cash and cash equivalents comprise:-			
Cash and bank balances	13,084	35,121	17,573
Bank overdrafts	(1,175)	(5,562)	(3,581)
	11,909	29,559	13,992

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
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8 Kencana Marine Sdn Bhd (formerly known as Lumut Shipbuilding & Engineering Sdn Bhd)

8.1 Summarised results

	Notes	← For the year ended 31 July →		
		2004 RM'000	2005 RM'000	2006 RM'000
Revenue	8.1.1	3,188	8,135	24,491
Cost of services rendered		(3,057)	(7,808)	(23,171)
Gross profit		131	327	1,320
Profit before taxation		87	264	62
Taxation		(25)	(53)	(14)
Profit after taxation		62	211	48
Effective tax rate (%)	8.1.2	28.7	20.1	22.6
Gross margin (%)		4.1	4.0	5.4
Pre-tax profit margin (%)		2.7	3.2	0.3
NTA per ordinary share (RM)		1.1	1.3	1.3
Current ratio (times)		10.4	2.1	1.7
Gearing ratio (times)		-	-	-
Interest coverage ratio (times)		-	-	-
Gross dividend rate (%)		-	-	-
After tax return on shareholders' funds (%)		5.8	16.6	3.6
Weighted average number of ordinary shares ('000)		583	1,000	1,000
Earnings per share (RM)				
- Gross	8.1.3	0.15	0.26	0.06
- Net		0.11	0.21	0.05

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

Notes to summary of results**8.1.1 Revenue**

	← For the year ended 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Revenue			
Services rendered – oil and gas industry	3,188	8,135	24,491
Growth rate (%)	816.1	155.2	201.1
<i>(Revenue in 2003: RM348,000)</i>			

8.1.2 Effective tax rate

The effective tax rate in 2004 was higher than the statutory tax rate mainly due to certain expenses which were not deductible for tax purposes.

Effective from Year of Assessment (“YA”) 2004, companies with a paid up share capital of less than RM2.5 million are subject to tax rate of 20% for the first RM0.5 million of their chargeable income, hence the lower effective tax rate for Kencana Marine as compared to the statutory tax rate in 2005 and 2006.

8.1.3 Earnings per share

The basic gross and net earnings per share are calculated based on the profit before and after taxation attributable over the weighted average number of ordinary shares outstanding during the year.

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
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8.2 Summarised balance sheets

	Note	As at 31 July		
		2004 RM'000	2005 RM'000	2006 RM'000
Current assets				
Trade and other receivables	8.2.1	173	2,386	3,100
Tax recoverable		-	-	2
Cash and bank balances		1,001	51	134
		1,174	2,437	3,236
Current liabilities				
Trade and other payables	8.2.2	87	1,106	1,916
Taxation		26	59	-
		113	1,165	1,916
Net current assets		1,061	1,272	1,320
Financed by :-				
Share capital		1,000	1,000	1,000
Retained profits		61	272	320
Shareholders' funds		1,061	1,272	1,320

Note: The Company does not have inventories. Spares and consumables are expensed off to the income statement.

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

8.2.1 Trade and other receivables

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Trade receivables	-	14	-
Amount due from holding company	173	2,278	-
Amount due from related company	-	85	3,100
Deposit and advances	-	9	-
	173	2,386	3,100
Trade receivables turnover period (months)	-	-	-

8.2.2 Trade and other payables

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Trade payables	-	258	22
Other payables and accruals	87	848	1,154
Amount due to holding company	-	-	740
	87	1,106	1,916
Trade payables turnover period (months)	-	0.4	-

	Credit period	← As at 31 July 2006 →						Total
		← Within credit period →			← Exceed credit period →			
		0-30	31-60	61-90	3-6	6-12	> 12	
		days	days	days	months	months	months	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	90 days	-	-	-	-	-	22	22
% of trade payables		-	-	-	-	-	100.0	100.0

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

8.3 Statements of changes in equity

	Share capital RM'000	(Accumulated losses)/ Retained profit RM'000	Total RM'000
At 1 August 2003	*	(1)	(1)
Shares issued during the year	1,000	-	1,000
Net profit for the year	-	62	62
At 31 July 2004/1 August 2004	1,000	61	1,061
Net profit for the year	-	211	211
At 31 July 2005/1 August 2005	1,000	272	1,272
Net profit for the year	-	48	48
At 31 July 2006	1,000	320	1,320

* Denotes RM2.00

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

8.4 Cash flow statements

	← For the year ended 31 July →		
	2004 RM'000	2005 RM'000	2006 RM'000
Cash flows from operating activities			
Profit before taxation	87	264	62
Changes in working capital:			
Trade and other receivables	(147)	(2,214)	(714)
Trade and other payables	61	1,019	810
Cash generated from/(used in) operating activities	1	(931)	158
Income taxes paid	-	(19)	(75)
Net cash generated from/(used in) operating activities	1	(950)	83
Cash flows from financing activity			
Proceeds from issuance of shares	1,000	-	-
Net cash generated from financing activity	1,000	-	-
Net increase/(decrease) in cash and cash equivalents	1,001	(950)	83
Cash and cash equivalents at beginning of year	-	1,001	51
Cash and cash equivalents at end of year	1,001	51	134
Cash and cash equivalents comprise:			
Cash and bank balances	1,001	51	134

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
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9 Kencana Metering Sdn Bhd (formerly known as Maroil Engineering Sdn Bhd)

9.1 Summarised results

	Notes	← For the year ended 31 July →		
		2004	2005	2006
		RM'000	RM'000	RM'000
Revenue	9.1.1	757	5,776	9,225
Contract costs		(725)	(4,934)	(9,033)
Gross profit		<u>32</u>	<u>842</u>	<u>192</u>
Profit before taxation		19	565	79
Taxation		(7)	(123)	(68)
Profit after taxation		<u>12</u>	<u>442</u>	<u>11</u>
Effective tax rate (%)	9.1.2	36.8	21.8	86.1
Gross margin (%)		4.2	14.6	2.1
Pre-tax profit margin (%)		2.5	9.8	0.9
NTA per ordinary share (RM)		1.1	2.8	2.9
Current ratio (times)		1.9	1.1	1.3
Gearing ratio (times)		-	-	-
Interest coverage ratio (times)		-	-	-
Gross dividend rate (%)		-	-	-
After tax return on shareholders' funds (%)		4.5	62.5	1.5
Weighted average number of ordinary shares ('000)		146	250	250
Earnings per share (RM)	9.1.3			
- Gross		0.13	2.26	0.32
- Net		<u>0.08</u>	<u>1.77</u>	<u>0.04</u>

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

Notes to summary of results**9.1.1 Revenue**

	← Year ended 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Revenue			
Non oil and gas industry	757	5,776	9,225
Growth rate (%)	731.9	663.0	59.7

(Revenue in 2003: RM91,000)

9.1.2 Effective tax rate

The effective tax rate for 2004 was higher than the statutory tax rate due to certain expenses which were not deductible for tax purposes.

Effective from Year of Assessment ("YA") 2004, companies with a paid up share capital of less than RM2.5 million are subject to tax rate of 20% for the first RM0.5 million of their chargeable income, hence the lower effective tax rate in 2005 as compared to the statutory tax rate.

The effective tax rate for 2006 was higher than the statutory tax rate due to underprovision of tax in previous years.

9.1.3 Earnings per share

The basic gross and net earnings per share are calculated based on the profit before and after taxation attributable over the weighted average number of ordinary shares outstanding during the year.

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
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9.2 Summarised balance sheets

	Note	As at 31 July		
		2004 RM'000	2005 RM'000	2006 RM'000
Property, plant and equipment	9.2.1	-	47	58
Investment		*	-	-
Current assets				
Trade and other receivables	9.2.2	61	5,491	2,927
Tax recoverable		-	-	31
Cash and bank balances		507	5	16
		568	5,496	2,974
Current liabilities				
Trade and other payables	9.2.3	294	4,759	2,309
Taxation		9	73	-
		303	4,832	2,309
Net current assets		265	664	665
		265	711	723
Financed by :-				
Share capital		250	250	250
Retained profits		15	457	468
Shareholders' funds		265	707	718
Deferred and long term liabilities :-				
Deferred tax liabilities	9.2.4	-	4	5
		265	711	723

*Note: Represents the investment in Maroil Technologies Sdn Bhd of RM2.00

Note: The Company does not have inventories. Spares and consumables are expensed off to the income statement.

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
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Notes to summarised balance sheets**9.2.1 Property, plant and equipment**

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Furniture and fittings	-	10	9
Office equipment	-	33	46
Computer	-	4	3
	-	47	58

9.2.2 Trade and other receivables

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Amount due from contract customers	61	802	-
Amount due from holding company	-	2,946	-
Amount due from related company	-	1,739	2,926
Other receivables	-	4	1
	61	5,491	2,927

9.2.3 Trade and other payables

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Trade payables	50	633	213
Amount owing to contract customers	-	3,818	-
Amount due to holding company	226	-	864
Amount due to related company	-	85	1,068
Other payables and accrued expenses	18	223	164
	294	4,759	2,309
Trade payables turnover period (months)	0.8	1.5	0.3

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
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9.2.3 Trade and other payables (continued)

		← As at 31 July 2006 →						
		← Within credit period →			← Exceed credit period →			
Credit period		0-30	31-60	61-90	3-6	6-12	> 12	Total
		days	days	days	months	months	months	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	90 days	-	1	6	146	10	50	213
% of trade payables		-	0.5	2.8	68.5	4.7	23.5	100.0

9.2.4 Deferred tax liabilities

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Taxable temporary differences	-	4	5

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

9.3 Statements of changes in equity

	Share capital RM'000	Retained profits RM'000	Total RM'000
At 1 August 2003	*	2	2
Net profit for the year			
As previously stated	-	212	212
Prior years' adjustments – FRS 111 2004	-	(200)	(200)
Restated balance	*	12	12
Issue of shares	250	-	250
At 31 July 2004/1 August 2004	250	14	264
As previously stated	250	214	464
Prior years' adjustments – FRS 111 2004	-	(199)	(199)
Restated balance	250	15	265
Net profit for the year	-	442	442
At 31 July 2005/1 August 2005	250	457	707
Net profit for the year	-	11	11
At 31 July 2006	250	468	718

* Denotes RM2.00

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

9.4 Cash flow statements

	For the year ended 31 July		
	2004	2005	2006
	RM'000	RM'000	RM'000
Cash flows from operating activities			
Profit before taxation	19	565	79
Adjustment for:			
Depreciation	-	2	7
Operating profit before working capital changes	19	567	86
Changes in working capital:			
Trade and other receivables	(48)	(5,431)	2,565
Trade and other payables	286	4,465	(2,451)
Cash generated from/(used in) operations	257	(399)	200
Income taxes paid	-	(55)	(171)
Net cash generated from/(used in) operating activities	257	(454)	29
Cash flows from investing activities			
Purchase of property, plant and equipment	-	(48)	(18)
Proceeds from disposal of investment	-	*	-
Net cash used in investing activities	-	(48)	(18)
Cash flows from financing activity			
Proceeds from issuance of shares	250	-	-
Net cash generated from financing activity	250	-	-
Net increase/(decrease) in cash and cash equivalents	507	(502)	11
Cash and cash equivalents at beginning of year	-	507	5
Cash and cash equivalents at end of year	507	5	16
Cash and cash equivalents comprise:-			
Cash and bank balances	507	5	16

* Denotes RM2.00

10. ACCOUNTANTS' REPORT (Cont'd)

Kencana Petroleum Berhad
Accountants' Report
12 October 2006

10 Kencana Infrastructure Sdn Bhd (formerly known as Khidmat Lengkap Construction Sdn Bhd)

10.1 Summarised results

	Notes	← For the year ended 31 July →		
		2004 RM'000	2005 RM'000	2006 RM'000
Revenue	10.1.1	2,336	18,450	14,464
Contract costs		(2,108)	(16,504)	(16,159)
Gross profit		228	1,946	(1,695)
Profit/(loss) before taxation		37	1,708	(2,029)
Taxation		(12)	(455)	(41)
Profit/(loss) after taxation		25	1,253	(2,070)
Effective tax rate (%)	10.1.2	32.4	26.6	(2.0)
Gross margin (%)		9.8	10.5	(11.7)
Pre-tax profit margin (%)		1.6	9.3	(14.0)
NTA per ordinary share (RM)		1.0	2.3	0.2
Current ratio (times)		1.5	1.5	1.0
Gearing ratio (times)		-	-	-
Interest coverage ratio (times)		-	-	-
Gross dividend rate (%)		-	-	-
After tax return on shareholders' funds (%)		2.5	55.1	-
Weighted average number of ordinary shares ('000)		750	1,000	1,000
Earnings per share (RM)				
- Gross	10.1.3	0.05	1.71	(2.03)
- Net		0.03	1.25	(2.07)