

**10. ACCOUNTANTS' REPORT (Cont'd)**

*Kencana Petroleum Berhad*  
*Accountants' Report*  
*12 October 2006*

**Notes to summary of results****10.1.1 Revenue**

	← For the year ended 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
<b>Revenue</b>			
Non oil and gas industry	2,336	18,450	14,464
Growth rate (%)	100.0	689.8	(21.6)
<i>(Revenue in 2003: Nil)</i>			

**10.1.2 Effective tax rate**

The effective tax rate in 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 tax expense in 2006 is due to underprovision of tax in previous years.

**10.1.3 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)**

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**10.2 Summarised balance sheets**

	Note	As at 31 July		
		2004 RM'000	2005 RM'000	2006 RM'000
<b>Property, plant and equipment</b>	10.2.1	83	88	122
<b>Current assets</b>				
Other receivables	10.2.2	1,890	6,529	9,671
Tax recoverable		-	-	45
Cash and bank balances		1,005	106	593
		2,895	6,635	10,309
<b>Current liabilities</b>				
Trade and other payables	10.2.3	1,946	4,028	10,228
Taxation		7	415	-
		1,953	4,443	10,228
		942	2,192	81
<b>Net current assets</b>		1,025	2,280	203
<b>Financed by :-</b>				
Share capital		1,000	1,000	1,000
Retained profits/ (Accumulated losses)		20	1,273	(797)
<b>Shareholders' funds</b>		1,020	2,273	203
<b>Long term liabilities</b>				
Deferred tax liabilities	10.2.4	5	7	-
		1,025	2,280	203

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

**10. ACCOUNTANTS' REPORT (Cont'd)**

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**Notes to summarised balance sheets****10.2.1 Property, plant and equipment**

	← As at 31 July →		
	2004	2005	
	RM'000	RM'000	
Furniture and fittings	56	52	49
Office equipment and computers	20	24	64
Plant and machinery	-	7	6
Motor vehicles	7	5	3
	83	88	122

**10.2.2 Other receivables**

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Other receivables, deposits, and prepayments	2	7	10
Amount due from contract customer	-	-	1,273
Amount due from holding company	1,888	6,522	8,388
	1,890	6,529	9,671

**10.2.3 Trade and other payables**

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Trade payables	1,430	1,470	1,930
Amount due to contract customer	493	669	3,216
Amount due to related company	-	1,739	4,958
Other payables and accruals	23	150	124
	1,946	4,028	10,228
Trade payables turnover period (months)	8.1	1.1	1.4

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**10.2.3 Trade and other payables**

		← 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	195	289	471	588	-	387	1,930
% of trade payables		10.1	15.0	24.4	30.5	-	20.0	100.0

**10.2.4 Deferred tax liabilities**

	← As at 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
Taxable temporary differences	5	7	-

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**10.3 Statements of changes in equity**

	Share capital RM'000	(Accumulated losses)/ Retained profit RM'000	Total RM'000
<b>At 1 August 2003</b>	*	(5)	(5)
Net profit for the year			
As previously stated	-	171	171
Prior years' adjustments – FRS 111 2004	-	(146)	(146)
<b>Restated balance</b>	-	25	25
Issue of shares	1,000	-	1,000
<b>At 31 July 2004/1 August 2004</b>	1,000	20	1,020
Net profit for the year	-	1,253	1,253
<b>At 31 July 2005/1 August 2005</b>	1,000	1,273	2,273
Net loss for the year	-	(2,070)	(2,070)
<b>At 31 July 2006</b>	1,000	(797)	203

\*Denotes RM3.00

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**10.4 Cash flow statements**

	← For the year ended 31 July →		
	2004	2005	2006
	RM'000	RM'000	RM'000
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation	37	1,708	(2,029)
Adjustment for:			
Depreciation	12	14	17
Operating profit/(loss) before working capital changes	49	1,722	(2,012)
Changes in working capital:			
Trade and other receivables	(1,890)	(4,640)	(3,141)
Trade and other payables	1,941	2,083	6,189
Cash generated from/(used in) operating activities	100	(835)	1,036
Income taxes paid	-	(46)	(497)
<b>Net cash generated from/(used in) operating activities</b>	100	(881)	539
<b>Cash flows from investing activity</b>			
Acquisition of plant and equipment	(95)	(18)	(52)
<b>Net cash used in investing activity</b>	(95)	(18)	(52)
<b>Cash flows from financing activity</b>			
Proceeds from issuance of shares	1,000	-	-
<b>Net cash generated from financing activity</b>	1,000	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	1,005	(899)	487
<b>Cash and cash equivalents at beginning of year</b>	*	1,005	106
<b>Cash and cash equivalents at end of year</b>	1,005	106	593
<b>Cash and cash equivalents comprise:</b>			
Cash and bank balances	1,005	106	593

\*Denotes RM3.00

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## **11 Kencana Steelworks Sdn Bhd (formerly known as Kencana Petroleum Fabricators Sdn Bhd)**

### **11.1 Summarised results**

	Notes	For the period from 16 June 2005 to 31 July 2006 RM'000
<b>Revenue</b>		-
Cost of sales		-
Gross profit		<u>-</u>
<b>Loss before taxation</b>		(2)
Taxation		-
<b>Net loss for the period</b>		<u>(2)</u>
Effective tax rate (%)		-
Gross margin (%)		-
Pre-tax profit margin (%)		-
NTA per ordinary share (RM)		(1.0)
Current ratio (times)		0.5
Gearing ratio (times)		-
Interest coverage ratio (times)		-
Gross dividend rate (%)		-
After tax return on shareholders' funds (%)		-
Weighted average number of ordinary shares		1
Earnings per share (RM)		
- Gross		(2.00)
- Net		<u>(2.00)</u>

Note: This is the first set of financial statements prepared since the date of incorporation of the Company.

**10. ACCOUNTANTS' REPORT (Cont'd)**

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**11.2 Summarised balance sheets**

	<b>As at 31 July 2006 RM'000</b>
<b>Current assets</b>	
Other receivables	*
Amount due from holding company	**
	1
<b>Current liabilities</b>	
Other payables	2
<b>Net current liabilities</b>	(1)
	(1)
<b>Financed by :-</b>	
Share capital	1
Accumulated losses	(2)
<b>Deficit in shareholders' funds</b>	(1)
* Denotes RM300	
** Denotes RM122	



**10. ACCOUNTANTS' REPORT (Cont'd)**

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**11.3 Statements of changes in equity**

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 16 June 2005 (date of incorporation)	*	-	*
Issue of shares	1	-	1
Loss for the year	-	(2)	(2)
At 31 July 2006	1	(2)	(1)

\* Denotes RM2.00

**11.4 Cash flow statements**

	For the period from 16 June 2005 to 31 July 2006 RM'000
<b>Cash flow from operating activities</b>	
Loss before taxation	(2)
Changes in working capital:	
Other receivables	*
Other payables	2
Net cash used in operating activities	(1)
<b>Cash flows from financing activity</b>	
Subscribers' shares	1
Net cash generated from financing activity	1
Net increase in cash	-
Cash at beginning of period	-
Cash at end of period	-

\*Denotes RM422.00

## 10. ACCOUNTANTS' REPORT (Cont'd)



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## 12 Kencana Bestwide Sdn Bhd (formerly known as Best Wide Matrix Sdn Bhd)

### 12.1 Summarised results

	Notes	← For the year ended 31 December →			For the 7 months period ended 31 July 2006
		2003	2004	2005	RM'000
		RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>	12.1.1	16,648	41,140	47,884	38,846
Cost of services rendered		(10,070)	(31,722)	(39,751)	(33,005)
<b>Gross profit</b>		<b>6,578</b>	<b>9,418</b>	<b>8,133</b>	<b>5,841</b>
<b>Operating profit</b>		<b>4,625</b>	<b>6,035</b>	<b>5,343</b>	<b>3,665</b>
Interest expense		(114)	(119)	(78)	(51)
Interest income		156	-	-	-
<b>Profit before taxation</b>		<b>4,667</b>	<b>5,916</b>	<b>5,265</b>	<b>3,614</b>
Taxation		(1,360)	(1,666)	(1,553)	(967)
<b>Profit after taxation</b>		<b>3,307</b>	<b>4,250</b>	<b>3,712</b>	<b>2,647</b>
Effective tax rate (%)	12.1.2	29.1	28.2	29.5	26.8
Gross margin (%)		39.5	22.9	17.0	15.0
Pre-tax profit margin (%)		28.0	14.4	11.0	9.3
NTA per ordinary share (RM)		7.5	10.4	11.8	13.6
Current ratio (times)		4.1	2.3	2.2	1.4
Gearing ratio (times)		0.1	0.1	0.1	0.1
Interest coverage ratio (times)		40.6	50.7	68.5	71.9
Gross dividend rate (%)		-	-	129.4	-
After tax return on shareholders' funds (%)		29.3	27.3	20.9	20.4
Weighted average number of ordinary shares ('000)		1,500	1,500	1,500	1,500
Earnings per share (RM)	12.1.3				
- Gross		3.11	3.94	3.51	4.13
- Net		2.20	2.83	2.47	3.03

**10. ACCOUNTANTS' REPORT (Cont'd)**

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## Notes to summary of results

### 12.1.1 Revenue

	For the year ended 31 December			For the 7 months period ended 31 July 2006
	2003	2004	2005	
	RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>				
Engineering, Procurement, Construction and Commissioning	5,481	9,800	27,559	29,573
Skidded system	7,824	17,856	17,094	8,506
Commissioning services	1,309	11,047	1,938	-
Manpower services	2,034	2,437	1,293	767
	<u>16,648</u>	<u>41,140</u>	<u>47,884</u>	<u>38,846</u>
Growth rate (%)	(23.2)	147.1	16.4	39.1

*(Revenue in 2002: RM21,666,000)*

### 12.1.2 Effective tax rate

The effective tax rate for the years ended 31 December 2003 to 2005 was higher than the statutory tax rate due to certain expenses which were not deductible for tax purposes.

The effective tax rate for the 7 months period ended 31 July 2006 was lower than statutory tax rate due to the reversal of overprovision of tax in the previous years.

### 12.1.3 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/ period.

## 10. ACCOUNTANTS' REPORT (Cont'd)



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## 12.2 Summarised balance sheets

	Note	← As at 31 December →			As at 31
		2003	2004	2005	July 2006
		RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	12.2.1	3,012	2,866	4,397	4,362
Investment in subsidiary		2,000	2,000	2,000	2,000
Investment in associates		180	280	280	280
Investment in jointly controlled entity		-	*	**	**
Long term advances	12.2.2	-	-	3,765	5,519
		5,192	5,146	10,442	12,161
<b>Current assets</b>					
Trade and other receivables	12.2.3	7,836	17,156	8,920	31,727
Tax recoverable		-	-	150	227
Cash and cash equivalents	12.2.4	1,530	2,141	6,208	2,633
		9,366	19,297	15,278	34,587
<b>Current liabilities</b>					
Trade and other payables	12.2.5	1,475	7,844	6,171	24,530
Borrowings (secured)	12.2.6	692	251	825	872
Taxation		140	169	-	-
		2,307	8,264	6,996	25,402
<b>Net current assets</b>		7,059	11,033	8,282	9,185
		12,251	16,179	18,724	21,346
<b>Financed by :-</b>					
Share capital		1,500	1,500	1,500	1,500
Share premium		1,500	1,500	1,500	1,500
Retained profits		8,298	12,548	14,736	17,383
<b>Shareholders' funds</b>		11,298	15,548	17,736	20,383
<b>Deferred and long term liabilities :-</b>					
Borrowings (secured)	12.2.6	951	629	899	810
Deferred tax liabilities	12.2.7	2	2	89	153
		953	631	988	963
		12,251	16,179	18,724	21,346

\*Represents investments in Best Wide M CCS Sdn Bhd of RM70

\*\* Represents investments in Best Wide M CCS Sdn Bhd of RM50

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****12.2.1 Property, plant and equipment**

	← As at 31 December →			As at 31
	2003	2004	2005	July 2006
	RM'000	RM'000	RM'000	RM'000
Freehold office premises	2,621	2,621	3,373	3,336
Motor vehicles	107	51	205	175
Computer and printers	106	83	493	545
Furniture, fittings and office equipment	39	10	77	89
Renovation	139	101	249	217
	3,012	2,866	4,397	4,362

**12.2.2 Long term advances**

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

**12.2.3 Trade and other receivables**

	← As at 31 December →			As at 31
	2003	2004	2005	July 2006
	RM'000	RM'000	RM'000	RM'000
Trade receivables	6,769	8,591	6,497	24,155
Less: Allowance for doubtful debts	(7)	(1,085)	(1,088)	(1,384)
	6,762	7,506	5,409	22,771
Amount due from contract customers	430	2,134	265	1,621
Amount due from subsidiary	229	-	117	165
Amount due from associates	-	2,017	2,856	6,999
Amount due from jointly controlled entity	-	4,985	-	31
Other receivables, deposits and prepayments	415	514	273	140
	7,836	17,156	8,920	31,727
Trade receivables turnover period (months)	4.9	2.2	1.4	4.1

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**12.2.3 Trade and other receivables (continued)**

		← As at 31 July 2006 →						
		← Within credit →			← Exceed credit period →			
		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	19,098	1,505	489	1,233	1,830	-	24,155
% of trade receivables		79.1	6.2	2.0	5.1	7.6	-	100.0

**Retention sum**

Included in trade receivables are retention sums of RM271,000 for various projects, which will be collected after issuance of the respective projects' Statement of Final Accounts.

**12.2.4 Cash and cash equivalents**

	← As at 31 December →			As at 31
	2003	2004	2005	July 2006
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	237	716	1,063	1,538
Deposits placed with licensed banks	1,293	1,425	5,145	1,095
	1,530	2,141	6,208	2,633

**12.2.5 Trade and other payables**

	← As at 31 December →			As at 31
	2003	2004	2005	July 2006
	RM'000	RM'000	RM'000	RM'000
Trade payables	351	4,745	867	1,072
Amount due to contract customers	153	604	2,306	17,143
Amount due to subsidiary	-	1,244	57	2,400
Amount due to associates	219	100	240	1,019
Amount due to a related company	-	-	-	1,429
Other payables and accrued expenses	752	1,151	2,701	1,467
	1,475	7,844	6,171	24,530
Trade payables turnover period (months)	0.4	1.8	0.3	0.2

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## 12.2.5 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	715	271	73	-	13	-	1,072
% of trade payables		66.7	25.3	6.8	-	1.2	-	100.0

## 12.2.6 Borrowings

	As at 31 December			As at 31
	2003	2004	2005	July 2006
	RM'000	RM'000	RM'000	RM'000
Short term borrowings				
Term loans - secured	179	244	195	147
Bank overdraft - secured	513	7	630	725
	692	251	825	872
Long term borrowings				
Term loans - secured	951	629	899	810
	1,643	880	1,724	1,682

## 12.2.7 Deferred tax liabilities

	As at 31 December			As at 31
	2003	2004	2005	July 2006
	RM'000	RM'000	RM'000	RM'000
Taxable temporary differences	2	2	89	153

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**12.3 Statements of changes in equity**

	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
<b>At 1 January 2003</b>	1,000	-	5,006	6,006
Effect of adopting FRS112 2004	-	-	(13)	(13)
Issue of shares	500	1,500	-	2,000
Net profit for the year	-	-	3,307	3,307
<b>At 31 December 2003/1 January 2004</b>	1,500	1,500	8,300	11,300
Effect of adopting FRS 112 2004	-	-	(2)	(2)
<b>Restated balance</b>	1,500	1,500	8,298	11,298
Net profit for the year	-	-	4,250	4,250
<b>At 31 December 2004/1 January 2005</b>	1,500	1,500	12,548	15,548
Net profit for the year	-	-	3,712	3,712
Dividend	-	-	(1,524)	(1,524)
<b>At 31 December 2005/1 January 2006</b>	1,500	1,500	14,736	17,736
Net profit for the period	-	-	2,647	2,647
<b>At 31 July 2006</b>	1,500	1,500	17,383	20,383



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**12.4 Cash flow statements**

	For the year ended 31 December			For the 7
	2003	2004	2005	months
	RM'000	RM'000	RM'000	period
				ended 31
				July 2006
				RM'000
<b>Cash flows from operating activities</b>				
Profit before taxation	4,667	5,916	5,265	3,614
Adjustment for:				
Depreciation	249	267	312	265
Gain on disposal of property, plant and equipment	-	-	(100)	-
Interest expense	114	119	78	51
Interest income	(156)	(6)	(53)	(48)
Property, plant and equipment written off	-	-	2	-
Operating profit before working capital changes	4,874	6,296	5,504	3,882
Changes in working capital:				
Trade and other receivables	(1,171)	(9,319)	4,471	(24,561)
Trade and other payables	(1,770)	6,370	(3,198)	18,359
Cash generated from/(used in) operations	1,933	3,347	6,777	(2,320)
Interest received	156	6	53	48
Income taxes paid	(1,523)	(1,638)	(1,784)	(980)
<b>Net cash generated from/(used in) operating activities</b>	<b>566</b>	<b>1,715</b>	<b>5,046</b>	<b>(3,252)</b>
<b>Cash flows from investing activities</b>				
Acquisition of a subsidiary	(2,000)	-	-	-
Acquisition of an associate	-	(100)	-	-
Purchase of investments	(180)			
Investment in jointly controlled entity	-	*	-	-
Proceeds from disposal of investment	-	-	**	-
Proceeds from disposal of property, plant and equipment	-	-	100	-
Purchase of property, plant and equipment	(48)	(122)	(1,845)	(230)
<b>Net cash used in investing activities</b>	<b>(2,228)</b>	<b>(222)</b>	<b>(1,745)</b>	<b>(230)</b>

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**12.4 Cash flow statements (continued)**

	For the year ended 31 December			For the 7
	2003	2004	2005	months
	RM'000	RM'000	RM'000	period
				ended 31
				July 2006
				RM'000
<b>Cash flows from financing activities</b>				
Proceeds from issuance of shares	2,000	-	-	-
(Increase)/decrease in pledged deposits placed with licensed banks	(32)	(1,393)	180	150
Proceeds from drawdown of term loans	384	-	544	-
Repayment of term loans	(71)	(257)	(323)	(137)
Interest paid	(114)	(119)	(78)	(51)
<b>Net cash generated from/(used in) financing activities</b>	<b>2,167</b>	<b>(1,769)</b>	<b>323</b>	<b>(38)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>505</b>	<b>(276)</b>	<b>3,624</b>	<b>(3,520)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>480</b>	<b>985</b>	<b>709</b>	<b>4,333</b>
<b>Cash and cash equivalents at end of year</b>	<b>985</b>	<b>709</b>	<b>4,333</b>	<b>813</b>
<b>Cash and cash equivalents comprise:-</b>				
Cash and bank balances	237	716	1,063	1,538
Deposits placed with licensed banks	1,293	1,425	5,145	1,095
Bank overdrafts	(513)	(7)	(630)	(725)
	1,017	2,134	5,578	1,908
Less: Deposits pledged	(32)	(1,425)	(1,245)	(1,095)
	985	709	4,333	813

\*Denotes RM70

\*\* Denotes RM20

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## **13 Kencana Pinewell Sdn Bhd (formerly known as Pinewell Matrix Sdn Bhd)**

### **13.1 Summarised results**

	Notes	← For year ended 31 December →			For the 7 months period ended 31
		2003	2004	2005	July 2006
		RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>	13.1.1	4,097	5,935	12,411	10,570
Cost of services rendered		(3,124)	(4,513)	(10,157)	(9,041)
<b>Gross profit</b>		973	1,422	2,254	1,529
<b>Operating profit</b>		503	853	1,458	939
Interest expense		(29)	(27)	(38)	(52)
Interest income		12	-	-	-
<b>Profit before taxation</b>		486	826	1,420	887
Taxation		(123)	(222)	(413)	(231)
<b>Profit after taxation</b>		363	604	1,007	656
Effective tax rate (%)	13.1.2	25.3	26.9	29.1	26.0
Gross margin (%)		23.7	24.0	18.2	14.5
Pre-tax profit margin (%)		11.9	13.9	11.4	8.4
NTA per ordinary share (RM)		9.5	13.5	20.3	7.4
Current ratio (times)		1.6	2.1	1.4	1.5
Gearing ratio (times)		0.4	0.1	0.2	0.1
Interest coverage ratio (times)		17.3	31.6	38.4	18.1
Gross dividend rate (%)		-	-	-	-
After tax return on shareholders' funds (%)		25.4	29.7	33.1	27.0
Weighted average number of ordinary shares ('000)		150	150	150	300
Earnings per share (RM)	13.1.3				
- Gross		3.24	5.51	9.47	5.07
- Net		2.42	4.03	6.71	3.75

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**Notes to summary of results****13.1.1 Revenue**

	← For year ended 31 December →			For the 7 months period ended 31 July 2006
	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>				
Services rendered	4,097	5,935	12,411	10,570
Growth rate (%)	42.8	44.9	109.1	46.0
<i>(Revenue in 2002: RM2,870,000)</i>				

**13.1.2 Effective tax rate**

Effective from the Year of Assessment ("YA") 2003, companies with a paid up share capital of less than RM2.5 million are subject to tax rate of 20% for the first RM100,000 of their chargeable income, hence the lower effective tax rate in the year as compared to the statutory tax rate.

Effective from 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 RM500,000 of their chargeable income, hence the lower effective tax rate in 2004 and the 7 months period ended 31 July 2006 as compared to the statutory tax rate.

The effective tax rate was higher than the statutory tax rate in 2005 due to certain expenses which were not deductible for tax purposes.

**13.1.3 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.

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**13.2 Summarised balance sheets**

	Note	As at 31 December			As at 31 July
		2003	2004	2005	2006
		RM'000	RM'000	RM'000	RM'000
<b>Property, plant and equipment</b>	13.2.1	688	658	1,019	978
<b>Current assets</b>					
Trade and other receivables	13.2.2	2,386	2,281	6,933	7,346
Cash and cash equivalents	13.2.3	14	572	592	662
		2,400	2,853	7,525	8,008
<b>Current liabilities</b>					
Trade and other payables	13.2.4	1,108	1,259	4,559	4,563
Borrowings	13.2.5	440	66	741	415
Taxation		-	64	105	193
		1,548	1,389	5,405	5,171
		852	1,464	2,120	2,837
<b>Net current assets</b>		1,540	2,122	3,139	3,815
<b>Financed by :-</b>					
Share capital		150	150	150	500
Retained profits		1,278	1,882	2,889	3,195
<b>Shareholders' funds</b>		1,428	2,032	3,039	3,695
<b>Deferred and long term liabilities:-</b>					
Borrowings	13.2.5	100	64	14	16
Deferred tax liabilities	13.2.6	12	26	86	104
		112	90	100	120
		1,540	2,122	3,139	3,815

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****13.2.1 Property, plant and equipment**

	← As at 31 December →			As at 31 July
	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000
Long-term leasehold land and building	297	293	289	287
Furniture, fittings and equipment	27	32	61	61
Plant and machinery	25	21	401	343
Motor vehicles	307	284	222	229
Container	1	1	26	22
Renovation	31	27	20	36
	<b>688</b>	<b>658</b>	<b>1,019</b>	<b>978</b>

**13.2.2 Trade and other receivables**

	← As at 31 December →			As at 31 July
	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000
Trade receivables	1,400	283	6,355	4,312
Less: Allowance for doubtful debts	-	-	-	(109)
	<b>1,400</b>	<b>283</b>	<b>6,355</b>	<b>4,203</b>
Amount due from contract customers	275	361	301	476
Amount due from holding company	285	1,327	57	2,400
Amount due from a related company	400	284	-	224
Other receivables, deposits and prepayments	26	26	220	43
	<b>2,386</b>	<b>2,281</b>	<b>6,933</b>	<b>7,346</b>
Trade receivables turnover period (months)	<b>4.1</b>	<b>0.6</b>	<b>6.1</b>	<b>2.8</b>

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**13.2.2 Trade and other receivables (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 receivables	30-60 days	513	15	1,427	1,865	414	78	4,312
% of trade receivables		11.9	0.3	33.1	43.3	9.6	1.8	100.0

**Retention sum**

Included in trade receivables are retention sums of RM510,000 for various projects, which will be collected after issuance of the respective projects' Statement of Final Accounts.

**13.2.3 Cash and cash equivalents**

	← As at 31 December →			As at 31 July
	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000
Deposits with licensed banks	-	500	550	520
Cash and bank balances	14	72	42	142
	14	572	592	662

**13.2.4 Trade and other payables**

	← As at 31 December →			As at 31 July
	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000
Trade payables	614	740	1,527	959
Amount due to contract customers	-	57	2,247	2,747
Amount due to holding company	265	83	116	165
Amount due to related companies	108	327	110	103
Other payables and accrued expenses	121	52	559	589
	1,108	1,259	4,559	4,563
Trade payables turnover period (months)	2.4	2.0	1.8	0.7

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## 13.2.4 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	110	88	203	556	-	2	959
% of trade payables		11.5	9.2	21.1	58.0	-	0.2	100.0

## 13.2.5 Borrowings

	As at 31 December			As at 31 July
	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000
Short term borrowings				
Term loan - secured	30	32	33	27
Revolving credits - unsecured	-	-	500	-
Overdrafts - secured	356	-	183	374
Hire purchase liabilities	54	34	25	14
	440	66	741	415
Long term borrowings				
Long term loan - secured	79	46	14	-
Hire purchase liabilities	21	18	-	16
	100	64	14	16
	540	130	755	431

## 13.2.6 Deferred tax liabilities

	As at 31 December			As at 31 July
	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000
Taxable temporary differences	12	26	86	104



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**13.3 Statements of changes in equity**

	<b>Share capital RM'000</b>	<b>Retained profits RM'000</b>	<b>Total RM'000</b>
<b>At 1 January 2003</b>	150	915	1,065
Net profit for the year	-	363	363
<b>At 31 December 2003/1 January 2004</b>	150	1,278	1,428
Net profit for the year	-	604	604
<b>At 31 December 2004/1 January 2005</b>	150	1,882	2,032
Net profit for the year	-	1,007	1,007
<b>At 31 December 2005/ 1 January 2006</b>	150	2,889	3,039
Bonus issue	350	(350)	-
Net profit for the period	-	656	656
<b>At 31 July 2006</b>	500	3,195	3,695

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**13.4 Cash flow statements**

	← Year ended 31 December →			For the 7 months period ended 31 July 2006
	2003 RM'000	2004 RM'000	2005 RM'000	
<b>Cash flows from operating activities</b>				
Profit before taxation	486	826	1,420	887
Adjustments for:				
Depreciation	94	119	211	137
Gain on disposal of property, plant and equipment	(36)	(5)	-	-
Interest expense	24	21	25	45
Interest income	(12)	(11)	(14)	(10)
Operating profit before working capital changes	556	950	1,642	1,059
Changes in working capital:				
Trade and other receivables	(1,303)	102	(4,653)	(413)
Trade and other payables	520	151	3,301	4
Cash (used in)/generated from operations	(227)	1,203	290	650
Income taxes paid	(174)	(138)	(311)	(125)
Interest paid	(25)	(21)	(25)	(45)
<b>Net cash (used in)/generated from operating activities</b>	<b>(426)</b>	<b>1,044</b>	<b>(46)</b>	<b>480</b>
<b>Cash flows from investing activities</b>				
Interest received	12	8	14	10
Proceeds from disposal of property, plant and equipments	107	26	-	(76)
Purchase of property, plant and equipment	(130)	(70)	(557)	-
<b>Net cash used in investing activities</b>	<b>(11)</b>	<b>(36)</b>	<b>(543)</b>	<b>(66)</b>

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## 13.4 Cash flow statements (continued)

	← Year ended 31 December →			For the 7 months period ended 31 July 2006
	2003 RM'000	2004 RM'000	2005 RM'000	RM'000
<b>Cash flows from financing activities</b>				
Increase in pledged deposits placed with licensed banks	-	(100)	-	(420)
Repayment of hire purchase liabilities	(44)	(63)	(42)	(15)
Repayment of term loan	(29)	(31)	(32)	(20)
Drawdown of revolving credits	-	-	500	-
Repayment of revolving credits	-	-	-	(500)
<b>Net cash (used in)/generated from financing activities</b>	<b>(73)</b>	<b>(194)</b>	<b>426</b>	<b>(955)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(510)</b>	<b>814</b>	<b>(163)</b>	<b>(541)</b>
<b>Cash and cash equivalents at beginning of year/ period</b>	<b>168</b>	<b>(342)</b>	<b>472</b>	<b>309</b>
<b>Cash and cash equivalents at end of year/ period</b>	<b>(342)</b>	<b>472</b>	<b>309</b>	<b>(232)</b>
<b>Cash and cash equivalents comprise:</b>				
Cash and bank balances	14	72	42	142
Deposits with licensed banks	-	500	550	520
Bank overdrafts	(356)	-	(183)	(374)
	(342)	572	409	288
Less: Deposits pledged with licensed banks	-	(100)	(100)	(520)
	(342)	472	309	(232)



## 14 Summary of significant accounting policies

The significant accounting policies adopted by the Kencana Petroleum Group are as follows:

### (a) Basis of accounting

The financial statements of Kencana Petroleum and its subsidiaries are prepared in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

### (b) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intragroup transactions and balances and the resulting realisable profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

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**(b) Basis of consolidation (continued)****(ii) Associates**

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

**(iii) Joint Venture**

A joint venture is a contractual agreement whereby the Group and other parties have joint control over an economic activity.

In respect of its interest in jointly controlled entities, the Group uses the equity method to account for its interest.

Unrealised profits or losses arising from transactions between the Group and its joint venturers are recognised only to the extent of that portion of the gain or loss which is attributable to the interests of the other venturers. Unrealised losses are recognised in full when the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

**(c) Property, plant and equipment**

Freehold land and capital work-in-progress are stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

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**(c) Property, plant and equipment (continued)*****Depreciation***

Freehold land is not amortised. Leasehold land is amortised in equal instalments over the period of the respective leases which range from eighty-five to eighty-nine years. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Building and structures	2% - 20%
Computers, equipment, air-conditioners, furniture and fixtures	10% - 50%
Motor vehicles	20 - 25%
Plant and machinery	10 - 20%

**(d) Investments**

Long term investments in subsidiaries, associates, joint venture and other investments are stated at cost in the Company, less impairment losses where applicable.

**(e) Goodwill*****Kencana HL Group***

Goodwill arising on consolidation which represents the excess of cost of acquisition over the Group's interest in the fair value of the net assets of subsidiaries at the date of acquisition is written off as an expense in the income statement in the financial year when the acquisition occurs.

***Kencana Bestwide Group***

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses.

Goodwill is amortised from the date of initial recognition over its estimated useful life of not more than 20 years.

In respect of associates and jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the investment in the associate or jointly controlled entity.

**(f) Trade and other receivables**

Trade and other receivables are stated at cost less allowance for doubtful debts.

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**(g) Amount due from contract customers**

Amount due from contract customers on construction contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

**(h) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

**(i) Impairment**

The carrying amount of assets, other than assets arising from construction contracts, and financial assets (other than investments in subsidiaries, associates and joint ventures), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement.

**(j) Provisions**

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

**(k) Liabilities**

Borrowings, trade and other payables are stated at cost.

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**(l) Hire purchase**

Property, plant and equipment acquired under hire purchase arrangements are capitalised at their purchase cost and depreciated on the same basis as owned assets. The total amounts payable under hire purchase agreements are included as hire purchase liabilities.

**(m) Income tax**

Tax on the profit or loss for the financial year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

**(n) Foreign currency**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
1 United States Dollar	3.65	3.75	3.80
1 Euro	4.67	4.55	4.58
1 Pound Sterling	6.82	6.58	6.91
100 Japanese Yen	3.19	3.34	3.40
1 Singapore Dollar	2.26	2.26	2.20



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**(o) Revenue****(i) Construction contracts*****Kencana HL Group***

Revenue from construction contracts, fabrication and engineering works is recognised on the percentage of completion method, measured by reference to the proportion that contract costs incurred for contract work performed to date that reflect work performed bear to the total estimated contract costs.

***Kencana Bestwide Group***

Revenue from fixed price construction contracts and other engineering works is recognised on the percentage of completion method, measured by reference to survey of works performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

An expected loss on a contract is recognised immediately in the income statement.

**(ii) Interest income**

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

**(iii) Services**

Revenue from manpower service rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

**(p) Expenses****(i) Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

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**(ii) Financing costs**

All interest are expensed as incurred. The interest component of finance lease payments is recognised in the income statement so as to give a constant periodic.

**(q) Employee benefits****(i) Short term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined contribution plans**

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

## **15 Restatement of prior years balances in the audited financial statements**

The audited financial statements of Kencana HL Sdn Bhd, Kencana Metering Sdn Bhd, Kencana Infrastructure Sdn Bhd and Kencana Bestwide Sdn Bhd for the year ended 31 July 2005 and 31 December 2005 respectively, included restatements to prior years' balances to correct the following:

**Recognition of revenue and costs of construction**

Kencana HL Group adopted FRS 111<sub>2004</sub>, Construction Contracts, which states that revenue is recognised based on the percentage of completion method, measured by reference to the proportion that contract costs incurred for contract work performed to date that reflects work performed bear to the total estimated contract costs. Previously, Kencana HL Group wrongly recognised revenue based on progress billings instead of contract costs incurred.

**Deferred tax**

Kencana HL Group and Kencana Bestwide Group adopted FRS 112<sub>2004</sub>, Income Taxes on the recognition of deferred taxes. FRS 112<sub>2004</sub> requires the recognition in full of all taxable temporary differences. Previously, Kencana HL Group and Kencana Bestwide Group did not provide for deferred tax liabilities if no liability was expected to arise in the foreseeable future and there were no indications the timing differences would reverse thereafter.

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**16 Restatement to the audited financial statements**

No restatement has been made to the audited financial statements of Kencana Petroleum Berhad and its subsidiaries in the preparation of this report.

**17 Subsequent events**

There were no significant events between the date of the last financial statements used in the preparation of the report and the date of the report which will affect materially the contents of this report.

Yours faithfully,

**KPMG**  
Firm Number: AF 0758  
Chartered Accountants

**Foong Mun Kong**  
Partner  
Approval Number: 2613/12/06(J)



**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
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## Report of the auditors to the members of Kencana Petroleum Sdn. Bhd.

(Formerly known as Radiant Horizon Sdn. Bhd.)  
(Company No. 667490-M)  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 8 to 14. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - i) the state of affairs of the Company at 31 July 2005 and of the results of its operations and cash flows for the period ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

**KPMG**  
Firm Number: AF 0758  
Chartered Accountants

**Foong Mun Kong**  
Partner  
Approval Number: 2613/12/06(J)

Kuala Lumpur,

Date: 15 SEP 2005



**KPMG (Firm No. AF 0758)**  
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50490 Kuala Lumpur, Malaysia

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## Report of the auditors to the members of Kencana Petroleum Berhad

(Formerly known as Radiant Horizon Sdn Bhd)  
(Company No. 667490-M)  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 8 to 15. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - i) the state of affairs of the Company at 31 July 2006 and of its results and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

**KPMG**  
Firm Number: AF 0758  
Chartered Accountants

Kuala Lumpur,

Date: 14 SEP 2006

**Foong Mun Kong**  
Partner  
Approval Number: 2613/12/06(J)