

# **KENCANA PETROLEUM BERHAD**

Company No. 667490-M  
(Incorporated in Malaysia)

## **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

QUARTERLY REPORT	:	FINANCIAL PERIOD ENDED 31 JANUARY 2007
PERIOD	:	1 NOVEMBER 2006 TO 31 JANUARY 2007
QUARTER	:	2 <sup>ND</sup> QUARTER
FINANCIAL YEAR END	:	31 JULY 2007
FIGURES	:	UNAUDITED

**KENCANA PETROLEUM BERHAD (667490-M)**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2007**

	<b>2<sup>nd</sup> Quarter</b>		<b>Cumulative Quarter</b>	
	<b>01.11.2006 to 31.01.2007 RM'000</b>	<b>01.11.2005 to 31.01.2006* RM'000</b>	<b>20.09.2006 to 31.01.2007 RM'000</b>	<b>01.08.2005 to 31.01.2006* RM'000</b>
<b>Revenue</b>	205,247	n/a	277,234	n/a
Contract costs	(178,382)	n/a	(241,808)	n/a
<b>Gross profit</b>	26,865	n/a	35,426	n/a
Depreciation	(1,636)	n/a	(2,176)	n/a
Operating expenses	(5,384)	n/a	(6,144)	n/a
Other operating income	582	n/a	586	n/a
<b>Profit from operations</b>	20,427	n/a	27,692	n/a
Interest expense	(1,367)	n/a	(1,957)	n/a
Interest income	49	n/a	64	n/a
Share of results of associated companies	82	n/a	179	n/a
Share of results of jointly controlled entities	4	n/a	4	n/a
<b>Profit before taxation</b>	19,195	n/a	25,982	n/a
Taxation	19 (3,973)	n/a	(5,702)	n/a
<b>Net profit for the period</b>	15,222	n/a	20,280	n/a
Attributable to:				
Equity holders of the parent	15,222	n/a	20,280	n/a
Minority interests	-	n/a	-	n/a
<b>Net profit for the period</b>	15,222	n/a	20,280	n/a
<b>Earnings per share (“EPS”) attributable to equity holders of the parent (sen)</b>				
Basic	27 1.90	n/a	2.70	n/a
Diluted	27 1.89	n/a	2.68	n/a

Note:

\* Since this is the first year of issuance of quarterly reports after the Group was conceived on 20 September 2006, there are no comparative consolidated figures for the preceding financial year's corresponding quarter and year-to-date.

*The condensed consolidated income statement should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.*

**KENCANA PETROLEUM BERHAD (667490-M)**  
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**CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 JANUARY 2007**

	<b>As at 31.01.2007 RM'000</b>	<b>As at 31.07.2006* RM'000</b>
<b><u>ASSETS</u></b>		
<b>Non-current assets</b>		
Property, plant and equipment	152,485	-
Investments	55	60,000
Investments in associated companies	1,082	-
Investments in jointly controlled entities	(9)	-
Goodwill	770	-
Long term advances	-	12,999
	<u>154,383</u>	<u>72,999</u>
<b>Current assets</b>		
Trade and other receivables	300,635	1,000
Short term deposits	21,623	-
Cash and bank balances	65,760	6,001
	<u>388,018</u>	<u>7,001</u>
<b>TOTAL ASSETS</b>	<u>542,401</u>	<u>80,000</u>
<b><u>EQUITY AND LIABILITIES</u></b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	89,150	60,000
Share premium	74,184	-
Other reserves	123	-
Retained profits / (accumulated losses)	20,273	(7)
<b>TOTAL EQUITY</b>	<u>183,730</u>	<u>59,993</u>
<b>Non-current liabilities</b>		
Long term borrowings	23 46,530	-
Deferred taxation	8,303	-
Amount owing to a shareholder	-	20,000
	<u>54,833</u>	<u>20,000</u>
<b>Current liabilities</b>		
Trade and other payables	214,128	7
Taxation	898	-
Short term borrowings	23 88,812	-
	<u>303,838</u>	<u>7</u>
<b>TOTAL LIABILITIES</b>	<u>358,671</u>	<u>20,007</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>542,401</u>	<u>80,000</u>
<b>Net assets per share attributable to equity holders of the parent (RM)</b>	<u>0.21</u>	<u>0.10</u>

Note:

\* As this is the first year of issuance of quarterly report after the Group was conceived on 20 September 2006, there are no comparative consolidated figures for the preceding financial year. The comparative figures relate to Kencana Petroleum company level position only.

*The condensed consolidated balance sheet should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.*

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2007**

	Non-Distributable				Total equity RM'000
	Attributable to Equity Holders of the Parent		Distributable		
	Share capital RM'000	Share premium RM'000	Share option reserve RM'000	Retained profits RM'000	
Balance as at 1 August 2006	60,000	-	-	(7)	59,993
Net profit for the period	-	-	-	20,280	20,280
Issue of ordinary shares pursuant to					
- Capitalisation of advances	8,000	12,000	-	-	20,000
- Initial public offering ("IPO")	20,000	62,000	-	-	82,000
- Share options exercised	1,150	3,565	-	-	4,715
Transfer to share premium for share options exercised		575	(575)		-
Transaction costs	-	(3,956)	-	-	(3,956)
Share-based payments	-	-	698	-	698
Balance as at 31 January 2007	89,150	74,184	123	20,273	183,730

Note:

Since this is the first year of issuance of quarterly reports after the Group was conceived on 20 September 2006, there are no comparative consolidated figures for the preceding financial year's corresponding quarter and year-to-date.

*The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.*

**KENCANA PETROLEUM BERHAD (667490-M)**  
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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2007**

	<b>Current Year-to-Date 20.09.2006 to 31.01.2007 RM'000</b>	<b>Preceding Year-to-Date 01.08.2005 to 31.01.2006* RM'000</b>
Net cash used in operating activities	(42,385)	n/a
Net cash used in investing activities	(23,638)	n/a
Net cash from financing activities	124,614	n/a
Net increase in cash and cash equivalents	58,591	n/a
Cash and cash equivalents at beginning of financial period	6,001	n/a
Cash and cash equivalents at end of financial period	<u>64,592</u>	<u>n/a</u>
Cash and cash equivalents at the end of the financial period comprise of the following balance sheet amounts:		
Cash and bank balances	65,760	n/a
Bank overdrafts	(1,168)	n/a
	<u>64,592</u>	<u>n/a</u>

Note:

\* As this is the first year of issuance of quarterly reports after the Group was conceived on 20 September 2006, there are no comparative consolidated figures for the preceding financial year to-date.

*The condensed consolidated cash flow statement should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.*

**PART A: EXPLANATORY NOTES PURSUANT TO FRS 134**

**1. BASIS OF PREPARATION**

The interim financial statements have been prepared under the historical cost convention.

The interim financial statements are unaudited and have been prepared 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 Securities”).

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 July 2006. The 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.

**2. CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 July 2006 except for the adoption of the following new or revised FRS effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of the new or revised FRSs does not have significant financial impact on the Group.

**3. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors’ report on the financial statements of the Company and its subsidiaries for the financial year/period ended 31 July 2006 were not qualified.

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### **4. SEGMENTAL INFORMATION**

Segmental information is not presented as there are no material business or geographical segments other than the engineering and fabrication of oil and gas production facilities in Malaysia.

### **5. 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 current quarter and financial year-to-date.

### **6. SIGNIFICANT ESTIMATES AND CHANGES IN ESTIMATES**

There were no changes in estimates that have had a material effect in the current quarter and financial year-to-date results.

### **7. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS**

The Group's performance is not affected by any seasonal or cyclical factors.

### **8. DIVIDENDS PAID**

No dividend was paid during the current quarter and financial year-to-date.

### **9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

There was no valuation of property, plant and equipment in the current quarter and financial year-to-date.

### **10. DEBT AND EQUITY SECURITIES**

- (a) In conjunction with, and as an integral part of the listing of the Company on the Main Board of Bursa Securities, the Company capitalised advances from a major shareholder, Khasera Baru Sdn Bhd on 11 October 2006 amounting to RM20,000,000 by way of an issuance of 80,000,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.25 per ordinary share.

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- (b) During the current quarter, the issued and paid-up share capital of the Company was increased by the following:
  - (i) RM20,000,000 by way of allotment and issue of 200,000,000 ordinary shares of RM0.10 each arising from the public issue in conjunction with the listing of the Company on the Main Board of Bursa Securities at an issue price of RM0.41 per ordinary share.
  - (ii) RM1,150,000 by way of allotment and issue of 11,500,000 ordinary shares of RM0.10 each arising from the exercise of Employees' Share Option Scheme ("ESOS") at an exercise price of RM0.41 per ordinary share.
- (c) Save as disclosed above, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter and financial year-to-date.

### **11. CHANGES IN COMPOSITION OF THE GROUP**

- (a) On 20 September 2006, the Company obtained control over the financial and operating policies of Kencana HL Sdn Bhd ("Kencana HL") and Kencana Bestwide Sdn Bhd ("Kencana Bestwide") and their subsidiaries in accordance with the terms of the agreements. Accordingly, Kencana HL and Kencana Bestwide became wholly-owned subsidiaries of the Company. The excess of the fair values of the net assets acquired over the consideration paid arising from the acquisition of Kencana HL and Kencana Bestwide has not been accounted for in the results for the financial period ended 31 January 2007 as the fair values are provisional values which are subject to adjustments.
- (b) Save as disclosed above, there were no other changes in the composition of the Group during the current quarter and financial year-to-date.

### **12. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

#### **Corporate Guarantee**

- (a) Kencana Bestwide, a wholly-owned subsidiary of the Company, granted unsecured corporate guarantee amounting to RM1,500,000 to a financial institution for credit facilities granted to Best Wide Engineering (M) Sdn Bhd, an associated company of Kencana Bestwide.
- (b) Kencana HL, a wholly-owned subsidiary of the Company, granted unsecured corporate guarantee amounting to USD6,665,530 to a financial institution for credit facilities granted to Cendor Mopu Producer Ltd ("CMPL"), previously an investment of Kencana HL. Kencana HL has disposed its entire equity interest in CMPL during the financial year ended 31 July 2006. Under the letter to dispose the shares in CMPL, the remaining shareholders of CMPL shall procure the financial institution to release the corporate guarantee extended to the financial institution and pending such release, the remaining shareholders will collectively assume Kencana HL's responsibility under the said corporate guarantee.



### **Material Litigation**

- (c) Kencana Bestwide, a wholly-owned subsidiary of the Company, instituted legal action against a customer for debts amounting to RM1,071,899.02 plus interest for work done and services rendered. The customer has filed a counter claim for the sum of RM2,122,573.08 plus interest, for damages allegedly suffered as part of the product provided by Kencana Bestwide which was allegedly counterfeit. Kencana Bestwide has filed a summary judgment application that was dismissed and an appeal has been filed. Kencana Bestwide then issued third party proceedings against the party which the purported defective product was purchased and Kencana Bestwide's insurers, in respect of the customer's counterclaim. The Court has fixed the matter for Case Management on 24 May 2007. Kencana Bestwide's solicitors are of the view that the customer's counterclaim is a mere assertion and lacks substantial evidence in support.
- (d) On 15 March 2006, a third party served Kencana HL, a wholly-owned subsidiary of the Company, with a notice pursuant to Section 218 of the Companies Act, 1965 stating that a sum of RM599,753.02 is due and owing by Kencana HL. Kencana HL disputed the amount claimed on the basis that it is not substantiated. Kencana HL has been granted a Quia Timet injunction by the Court to prevent the filing of a winding-up petition as there were triable issues concerning the alleged outstanding sum. As the claimant is restrained from commencing winding-up proceedings against Kencana HL, it is seeking to recover the outstanding sum by way of a conventional writ action. On 14 December 2006, the claimant filed an action against Kencana HL for, amongst others, a sum of RM1,731,388.92 together with a surcharge of RM43,284.78 being the alleged outstanding amount. To-date, the sealed copy of the writ of summons has not been served on Kencana HL. No provision has been made for the amount claimed as the Directors of the Company are of the opinion that the likelihood of crystallisation of the claim is remote.

Save as disclosed above, there were no other material contingent liabilities that may, upon materialisation, have a material effect on the Group's financial results or position.

### **13. CAPITAL COMMITMENTS**

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim condensed financial statements as at 31 January 2007 were as follows:

	<b>As at 31.01.2007 RM'000</b>
<b>Approved and contracted for</b>	
Purchase of property, plant and equipment	<u>1,523</u>

### **14. SUBSEQUENT EVENTS**

Save as disclosed above, there were no other material events subsequent to the end of the current quarter.

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

#### **15. PERFORMANCE REVIEW**

For the current quarter under review, the Group recorded a revenue of RM205.247 million and profit before taxation of RM19.195 million. For the financial year-to-date under review from 20 September 2006 to 31 January 2007, the Group recorded profit before taxation of RM25.982 million on the back of a revenue of RM277.234 million.

There were no comparative figures in the preceding financial year as this is the Group's first year of issuance of quarterly announcements after the Company was listed on the Main Board of Bursa Securities on 15 December 2006.

#### **16. MATERIAL CHANGE IN PROFIT BEFORE TAXATION OF CURRENT QUARTER**

For the current quarter under review, the Group recognised results for full 3 months from 1 November 2006 to 31 January 2007. For the preceding quarter, it was the first quarterly results drawn out after the Group was conceived on 20 September 2006. Hence, the results for the preceding quarter were from 20 September 2006 to 31 October 2006. Accordingly, the Group's revenue and profit before taxation for the current quarter was substantially higher than the preceding quarter. Profit before taxation margin for the current quarter was consistent with the preceding quarter.

#### **17. COMMENTARY ON PROSPECTS**

The Group's financial performance is dependent on the demand for engineering and fabrication of oil and gas production facilities, both onshore and offshore. Based on the existing order book and barring any unforeseen circumstances, the Board of Directors is of the opinion that the profit forecast for the financial year ending 31 July 2007 is achievable.

Moving forward, the Group expects the demand for the engineering and fabrication of oil and gas production facilities, both offshore and onshore to remain strong for the following reasons:

- Active exploration and production activities in Malaysia and various parts of the world
- Sustained high level of global demand for hydrocarbons
- Sustained high global market price for hydrocarbons
- Strong tender book for both local and overseas projects

#### **18. PROFIT FORECAST**

Save for the profit forecast included in the Company's Prospectus dated 21 November 2006, the Group did not issue any forecast for the current financial quarter. Disclosure on explanatory notes for the variance between actual and forecast results would only be required in the final quarter announcement for the current financial year ending 31 July 2007.

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**19. TAXATION**

	<b>2<sup>nd</sup> Quarter</b>		<b>Cumulative Quarter</b>	
	<b>01.11.2006</b> to <b>31.01.2007</b> RM'000	<b>01.11.2005</b> to <b>31.01.2006</b> RM'000	<b>20.9.2006</b> to <b>31.01.2007</b> RM'000	<b>01.08.2005</b> to <b>31.01.2006</b> RM'000
Current taxation	3,884	n/a	5,624	n/a
Deferred taxation	67		38	
Associated companies	21	n/a	39	n/a
Jointly controlled entities	1	n/a	1	n/a
	<u>3,973</u>	<u>n/a</u>	<u>5,702</u>	<u>n/a</u>

The effective tax rate of the Group for the current quarter and financial year to-date is lower than the statutory tax rate principally due to the availability of reinvestment allowances.

**20. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There were no sales of unquoted investments and/or properties in the current quarter and financial year to-date.

**21. INVESTMENTS IN QUOTED SECURITIES**

There were no dealings by the Group in quoted securities for the current quarter and financial year to-date. The Group did not hold any investments in quoted securities as at 31 January 2007.

**22. CORPORATE PROPOSALS**

- (a) On 15 December 2006, the entire issued and paid-up share capital of the Company, comprising 880,000,000 ordinary shares of RM0.10 each were listed on the Main Board of Bursa Securities. The listing proceeds from the IPO exercise have been utilised in the following manner:

<b>Purpose</b>	<b>Proposed Utilisation RM'000</b>	<b>Actual Utilisation 31.01.2007 RM'000</b>	<b>Intended Timeframe for Utilisation</b>	<b>Deviation RM'000</b>	<b>%</b>	<b>Explanations</b>
(i) Working capital	53,000	24,402	12 months	28,598	54	Note <sup>(1)</sup>
(ii) Repayment of borrowings	25,000	25,000	3 months	-	-	n/a
(iii) Listing expenses	4,000	3,956	Immediate	44	1	n/a
	<u>82,000</u>	<u>53,358</u>		<u>28,642</u>		

<sup>(1)</sup> Progressive utilisation within 12 months from date of Company's listing

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- (b) On 30 January 2007, 11,500,000 ordinary shares of RM0.10 each arising from the exercise of ESOS were listed on the Main Board of Bursa Securities.
- (c) Save as disclosed above, there is no other corporate proposal announced but not completed as at the 19 March 2007.

**23. BORROWINGS**

	<b>As at 31.01.2007 RM'000</b>	<b>As at 31.07.2006* RM'000</b>
<b>Short term borrowings</b>		
Secured:		
Bank overdrafts	1,168	-
Trade loans	23,384	-
Bankers acceptances	470	-
Revolving credits	37,313	-
Term loans – short term portion	1,923	-
Hire purchase liabilities – short term portion	4,554	-
Unsecured:		
Revolving credits	20,000	-
	<u>88,812</u>	<u>-</u>
<b>Long term borrowings</b>		
Secured:		
Term loans – long term portion	37,961	
Hire purchase liabilities – long term portion	8,569	-
	<u>46,530</u>	<u>-</u>
<b>Total borrowings</b>	<u>135,342</u>	<u>-</u>

\* The comparative figures relate to Kencana Petroleum company level position only.

All the above borrowings are denominated in Ringgit Malaysia (RM).

**24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

There was no off balance sheet financial instruments as at 19 March 2007.

**25. CHANGES IN MATERIAL LITIGATION**

As at 19 March 2007, there was no material litigation against the Group except as disclosed in Note 12.

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**26. DIVIDEND PROPOSED**

No dividend was proposed or declared for the current financial year-to-date under review.

**27. EARNINGS PER SHARE (“EPS”)**

**Basic EPS**

Basic EPS is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

	<u>2<sup>nd</sup> Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.11.2006</u>	<u>01.11.2005</u>	<u>20.09.2006</u>	<u>01.08.2005</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>
	<u>31.01.2007</u>	<u>31.01.2006</u>	<u>31.01.2007</u>	<u>31.01.2006</u>
Net profit for the period attributable to equity holders of the parent (RM'000)	15,222	n/a	20,280	n/a
Weighted average number of ordinary shares in issue ('000)	800,565	n/a	750,836	n/a
Basic EPS (sen)	<u>1.90</u>	<u>n/a</u>	<u>2.70</u>	<u>n/a</u>

**Diluted EPS**

Diluted EPS amount is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period after adjusting for the dilutive effects of all potential ordinary shares to be issued under the ESOS.

	<u>2<sup>nd</sup> Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.11.2006</u>	<u>01.11.2005</u>	<u>20.09.2006</u>	<u>01.08.2005</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>
	<u>31.01.2007</u>	<u>31.01.2006</u>	<u>31.01.2007</u>	<u>31.01.2006</u>
Net profit for the period attributable to equity holders of the parent (RM'000)	15,222	n/a	20,280	n/a
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	805,052	n/a	755,323	n/a
Diluted EPS (sen)	<u>1.89</u>	<u>n/a</u>	<u>2.68</u>	<u>n/a</u>

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**28. AUTHORISED FOR ISSUE**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated 26 March 2007.

BY ORDER OF THE BOARD

**Ng Heng Hooi**  
(MAICSA 7048492)  
Company Secretary  
Kuala Lumpur  
26 March 2007