

## **KENCANA PETROLEUM BERHAD**

Company No. 667490-M  
(Incorporated in Malaysia)

### **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 OCTOBER 2008

PERIOD : 1 AUGUST 2008 TO 31 OCTOBER 2008

QUARTER : 1<sup>ST</sup> QUARTER

FINANCIAL YEAR END : 31 JULY 2009

FIGURES : UNAUDITED

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

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2008**

	<b>1st Quarter</b>		<b>Cumulative Quarter</b>	
	<b>01.08.2008</b>	<b>01.08.2007</b>	<b>01.08.2008</b>	<b>01.08.2007</b>
	<b>to</b>	<b>to</b>	<b>to</b>	<b>to</b>
	<b>31.10.2008</b>	<b>31.10.2007</b>	<b>31.10.2008</b>	<b>31.10.2007</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	318,492	494,983	318,492	494,983
Contract costs	(263,660)	(459,013)	(263,660)	(459,013)
<b>Gross profit</b>	<b>54,832</b>	<b>35,970</b>	<b>54,832</b>	<b>35,970</b>
Depreciation and amortisation	(3,418)	(2,548)	(3,418)	(2,548)
Operating expenses	(7,214)	(6,116)	(7,214)	(6,116)
Other operating income	714	407	714	407
<b>Profit from operations</b>	<b>44,914</b>	<b>27,713</b>	<b>44,914</b>	<b>27,713</b>
Interest expense	(2,125)	(1,246)	(2,125)	(1,246)
Interest income	1,015	816	1,015	816
Share of results of associates	83	56	83	56
Share of results of jointly controlled entities	2	5	2	5
<b>Profit before taxation</b>	<b>43,889</b>	<b>27,344</b>	<b>43,889</b>	<b>27,344</b>
Taxation	(10,827)	(9,323)	(10,827)	(9,323)
<b>Net profit</b>	<b>33,062</b>	<b>18,021</b>	<b>33,062</b>	<b>18,021</b>
<b>Attributed to :</b>				
- Equity holders of the Company	33,062	18,021	33,062	18,021
- Minority Interests	-	-	-	-
<b>Net profit</b>	<b>33,062</b>	<b>18,021</b>	<b>33,062</b>	<b>18,021</b>
<b>Earnings per share :</b>				
- basic (sen)	3.67	2.02	3.67	2.02
- diluted (sen)	3.65	2.00	3.65	2.00

*The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 July 2008 and the accompanying explanatory notes attached to the interim financial statements.*

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

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 31 OCTOBER 2008**

	<b>As at 31.10.2008 Unaudited RM'000</b>	<b>As at 31.07.2008 Audited RM'000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	281,580	273,233
Goodwill	36,166	36,166
Investments in associates	45,617	28,375
Investments in jointly controlled entities	21	19
Other investment	67	68
	<u>363,451</u>	<u>337,861</u>
<b>Current Assets</b>		
Inventory	710	817
Receivables, deposits and prepayments	253,452	271,803
Current tax assets	-	628
Cash and cash equivalents	253,339	259,523
	<u>507,501</u>	<u>532,771</u>
<b>Total assets</b>	<u>870,952</u>	<u>870,632</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	90,200	90,200
Share premium	78,129	78,129
Other reserves	668	668
Retained profits	175,325	142,263
	<u>344,322</u>	<u>311,260</u>
<b>Minority interests</b>	-	-
<b>Total equity</b>	<u>344,322</u>	<u>311,260</u>
<b>Non-current liabilities</b>		
Long term borrowings	59,955	59,904
Deferred tax liability	22,760	22,793
	<u>82,715</u>	<u>82,697</u>
<b>Current Liabilities</b>		
Short term borrowings	97,367	90,977
Payables and accruals	341,842	383,167
Tax liabilities	4,706	2,531
<b>Total current liabilities</b>	<u>443,915</u>	<u>476,675</u>
<b>Total liabilities</b>	<u>526,630</u>	<u>559,372</u>
<b>Total equity and liabilities</b>	<u>870,952</u>	<u>870,632</u>
Net assets per share (RM)	<u>0.38</u>	<u>0.35</u>

*The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 July 2008 and the accompanying explanatory notes attached to the interim financial statements.*

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

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2008**

	-----Attributable to the equity holders of the Company -----					Minority Interests	Total Equity
	Share Capital RM'000	Share premium RM'000	Share option reserve RM'000	Distributable Retained profits RM'000	Total RM'000		
<b>At 1 August 2007</b>	<b>89,150</b>	<b>73,510</b>	<b>123</b>	<b>57,153</b>	<b>219,936</b>	-	<b>219,936</b>
Profit for the year	-	-	-	85,110	85,110	(40)	<b>85,070</b>
Share-based payment	-	-	965	-	965	-	<b>965</b>
Share options exercised	1,050	4,200	-	-	5,250	-	<b>5,250</b>
Transfer to share premium for share options exercised	-	420	(420)	-	-	-	-
Issuance of ordinary shares of a subsidiary to minority interest	-	-	-	-	-	40	<b>40</b>
Share issue expenses	-	(1)	-	-	(1)	-	<b>(1)</b>
<b>At 31 July 2008</b>	<b>90,200</b>	<b>78,129</b>	<b>668</b>	<b>142,263</b>	<b>311,260</b>	-	<b>311,260</b>
<b>At 1 August 2008</b>	<b>90,200</b>	<b>78,129</b>	<b>668</b>	<b>142,263</b>	<b>311,260</b>	-	<b>311,260</b>
Profit for the period	-	-	-	33,062	33,062	-	<b>33,062</b>
Share-based payment	-	-	-	-	-	-	-
Share options exercised	-	-	-	-	-	-	-
Transfer to share premium for share options exercised	-	-	-	-	-	-	-
Issuance of ordinary shares of a subsidiary to minority interest	-	-	-	-	-	-	-
<b>At 31 October 2008</b>	<b>90,200</b>	<b>78,129</b>	<b>668</b>	<b>175,325</b>	<b>344,322</b>	-	<b>344,322</b>

*The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 July 2008 and the accompanying explanatory notes attached to the interim financial statements.*

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

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2008**

	<b>Current Year-to-date 01.08.2008 to 31.10.2008 RM'000</b>	<b>Preceding Year-to-date 01.08.2007 to 31.10.2007 RM'000</b>
Net cash generated from operating activities	15,288	52,267
Net cash used in investing activities	(27,913)	(4,169)
Net cash used in financing activities	<u>(574)</u>	<u>(38,257)</u>
Net (decrease)/increase in cash and cash equivalents	(13,199)	9,841
Cash and cash equivalents at beginning of financial period	226,640	126,886
Cash and cash equivalents at end of financial period	<u><u>213,441</u></u>	<u><u>136,727</u></u>
Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	187,217	102,671
Short term deposits	66,122	86,365
Bank overdraft	<u>(885)</u>	<u>(744)</u>
	252,454	188,292
Deposits pledged	<u>(39,013)</u>	<u>(51,565)</u>
	<u><u>213,441</u></u>	<u><u>136,727</u></u>

*The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 July 2008 and 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 are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (“FRS”) 134 : Interim Financial Reporting and disclosure provisions 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 2008. 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 2008.

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 ended 31 July 2008 were not qualified.

**4. SEGMENTAL INFORMATION**

The Group mainly operates in Malaysia and the Malaysia-Thailand Joint Development Area (MTJDA). The Group considers these geographical areas to be significantly similar and therefore deemed them as a single geographical segment. Accordingly information by geographical segment is not presented.

The financial information by industrial segment is not presented as the Group operates in one business segment.

**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**

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**

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 Sdn Bhd ("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 Sdn Bhd ("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. The financial institution had conditionally approved the cancellation of the corporate guarantee pending finalisation of documentation by CMPL.

### **Material Litigation**

- (c) Kencana Bestwide, a wholly-owned subsidiary of the Company, filed a writ of summons in the Kuala Lumpur High Court on 15 October 2003 against one of its customers for the sum of RM1,071,899.02 plus interest, being outstanding payment due and owing to Kencana Bestwide for work done and services rendered by Kencana Bestwide. The said customer in return, filed a counter-claim for the sum of RM2,122,573.08 plus interest, for damages allegedly suffered. Kencana Bestwide's solicitors are of the view that the customer's counter-claim is a mere assertion and lacks of substantial evidence in support. The matter is now fixed for full trial on 11 and 12 May 2009 and 13 and 14 July 2009 in the Kuala Lumpur High Court.
- (d) On 15 September 2008, a claimant filed a writ of summons in the Kuala Lumpur High Court against Kencana HL as the second defendant for the work done and services rendered and wrongful termination as a sub-contractor for Kencana HL for inter-alia a sum of RM1,731,388.92, interest payment of RM1,131,635.90, damages and other interest payment. Kencana HL, through its solicitors, has filed a statement of defence and served the same on the claimant's solicitors. As at 26 November 2008, the claimant's solicitors have requested for an extension of time to reply to Kencana HL's Statement of Defence and no mention date and/or hearing date has been fixed by the Court to date.

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 October 2008 were as follows:

	<b>As at 31.10.2008 RM'000</b>
<b>Approved and contracted for</b>	
Purchase of property, plant and equipment	<u>13,527</u>

### **14. SUBSEQUENT EVENTS**

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



**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 revenue of RM318.5 million and profit before taxation of RM43.9 million. Compared to the corresponding quarter ended 31 October 2007 of RM495.0 million, revenue had decreased by approximately 36% in the current quarter, mainly due to progress achieved for contracts in hand, which was in line with the project delivery schedule. Despite the decrease in revenue, profit before tax had gone up by 61% from RM27.3 million to RM43.9 million due to better recorded margin.

**16. MATERIAL CHANGE IN QUARTERLY RESULTS AS COMPARED TO THE IMMEDIATE PRECEDING QUARTER**

Profit before tax had increased by approximately 41% for the current quarter under review at RM43.9 million, as compared to the immediate preceding quarter of RM31.2 million. The increase in profit before tax for the current quarter was mainly due to increase in revenue and better margin recorded.

**17. COMMENTARY ON PROSPECTS**

The Board of Directors believes that capital spending in the upstream oil and gas sector is expected to be resilient despite the lower world oil prices as compared to the previous quarter. This belief is based on continued active exploration and production activities by the oil and gas companies.

Based on this expectation, the Group expects the demand for its core business of engineering and fabrication of oil and gas production facilities, both offshore and onshore to remain strong. In addition, the Group's activities in the marine engineering in respect of the construction of offshore mobile drilling units and rig conversion work are expected to expand the earnings base of the Group. Barring unforeseen circumstances, the Board of Directors is confident that the prospect of the Group remains positive.

**18. PROFIT FORECAST**

The Group has not issued any profit forecast for the current financial year and therefore no comparison is available.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

**19. TAXATION**

	<b>1<sup>st</sup> Quarter</b>		<b>Cumulative Quarter</b>	
	<b>01.08.2008</b>	<b>01.08.2007</b>	<b>01.08.2008</b>	<b>01.08.2007</b>
	<b>To</b>	<b>to</b>	<b>To</b>	<b>To</b>
	<b>31.10.2008</b>	<b>31.10.2007</b>	<b>31.10.2008</b>	<b>31.10.2007</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Income tax expense	10,860	9,188	10,860	9,188
Deferred tax expense	(33)	135	(33)	135
	<u>10,827</u>	<u>9,323</u>	<u>10,827</u>	<u>9,323</u>

The effective tax rate of the Group for the financial year to-date closely approximates the statutory tax rate.

**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 October 2008.

**22. CORPORATE PROPOSALS**

- (a) On 13 September 2007, the Company announced the following proposed corporate exercises:
- (i) private placement of up to 10% of the issued and paid-up share capital of the Company ("Proposed Private Placement"); and
  - (ii) increase in the authorised share capital from RM100,000,000 comprising 1,000,000,000 shares to RM200,000,000 comprising 2,000,000,000 shares ("Proposed Increase in Authorised Share Capital").

The proposals were approved by the Company's shareholders at an extraordinary general meeting held on 26 October 2007. The Proposed Increase in Authorised Share Capital was effected on 26 October 2007. The Proposed Private Placement was approved by the Securities Commission ("SC") vide its letter dated 26 October 2007 and the Company is to implement the Proposed Private Placement within 6 months from the date of approval of the SC, i.e. 25 April 2008.

In view of the prevailing weak and volatile equity market condition, the Company had sought extension of time from the SC for the Proposed Private Placement and the SC had vide its letters dated 4 April 2008 and 25 September 2008 granted the Company an extension of time until 25 April 2009, to implement the Proposed Private Placement.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

- (b) On 27 November 2007, Kencana Petroleum Ventures and Mermaid Drilling (Singapore) Pte Ltd (“Mermaid”) had entered into a Letter of Agreement to clarify and confirm the principal understanding under which a second jointly-owned company, Mermaid Kencana Rig 2 Pte Ltd (“MKR-2”), would be incorporated in Singapore for the purpose of owning a second newbuild tender rig (any future shareholders’ agreement to be entered into by Kencana Petroleum Ventures in respect of MKR-2 shall hereinafter be referred to as the “MKR-2 Shareholders’ Agreements”). The Company’s shareholders have approved the MKR-2 Shareholders’ Agreements at an extraordinary general meeting held on 14 December 2007 and relevant approval from Bank Negara Malaysia has been received vide its letter dated 6 February 2008.

Save as disclosed above, there is no other corporate proposal announced but not completed as at 15 December 2008.

**23. LOANS AND BORROWINGS**

	<b>As at 31.10.2008 RM’000</b>	<b>As at 31.07.2008 RM’000</b>
<b>Short-term borrowings</b>		
Secured:		
Bankers’ acceptance	-	4,298
Term loans	8,485	9,892
Hire purchase liabilities	11,023	9,974
Unsecured:		
Bank overdraft	885	339
Term loan	66,474	66,474
Revolving credits	10,500	-
	<u>97,367</u>	<u>90,977</u>
<b>Long-term borrowings</b>		
Secured:		
Term loans	39,590	41,135
Hire purchase liabilities	20,365	18,769
	<u>59,955</u>	<u>59,904</u>
<b>Total borrowings</b>	<u>157,322</u>	<u>150,881</u>

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

**24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

There were no off balance sheet financial instruments as at 15 December 2008.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

**25. CHANGES IN MATERIAL LITIGATION**

As at 15 December 2008, there was no material litigation against the Group except as disclosed in Note 12.

**26. DIVIDEND PROPOSED**

No interim dividend has been declared for the current quarter under review.

The Directors had recommended a first and final single tier dividend of 5% per ordinary share of 10 sen each totalling RM4,510,000 in respect of the financial year ended 31 July 2008. The proposed final dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting to be held on 16 December 2008. The dividend entitlement and payment date will be determined and announced by the Company in due course.

**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>1<sup>st</sup> Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.08.2008</u> <u>to</u> <u>31.10.2008</u>	<u>01.08.2007</u> <u>to</u> <u>31.10.2007</u>	<u>01.08.2008</u> <u>To</u> <u>31.10.2008</u>	<u>01.08.2007</u> <u>To</u> <u>31.10.2007</u>
Net profit attributable to equity holders of the Company (RM'000)	33,062	18,021	33,062	18,021
Weighted average number of ordinary shares in issue ('000)	902,000	891,500	902,000	891,500
Basic EPS (sen)	<u>3.67</u>	<u>2.02</u>	<u>3.67</u>	<u>2.02</u>

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

**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>1<sup>st</sup> Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.08.2008</u> <u>to</u> <u>31.10.2008</u>	<u>01.08.2007</u> <u>to</u> <u>31.10.2007</u>	<u>01.08.2008</u> <u>To</u> <u>31.10.2008</u>	<u>01.08.2007</u> <u>To</u> <u>31.10.2007</u>
Net profit attributable to equity holders of the Company (RM'000)	33,062	18,021	33,062	18,021
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	906,683	899,697	906,683	899,697
Diluted EPS (sen)	<u>3.65</u>	<u>2.00</u>	<u>3.65</u>	<u>2.00</u>

**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 15 December 2008.

BY ORDER OF THE BOARD

**Ng Heng Hooi**  
(MAICSA 7048492)  
Company Secretary  
Kuala Lumpur  
15 December 2008