

KENCANA PETROLEUM BERHAD

Company No. 667490-M
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 JANUARY 2009

PERIOD : 1 NOVEMBER 2008 TO 31 JANUARY 2009

QUARTER : 2ND 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 JANUARY 2009**

	2nd Quarter		Cumulative Quarter	
	01.11.2008 to 31.01.2009 RM'000	01.11.2007 to 31.01.2008 RM'000	01.08.2008 to 31.01.2009 RM'000	01.08.2007 to 31.01.2008 RM'000
Revenue	274,090	351,408	592,582	846,391
Contract costs	(222,702)	(310,331)	(486,362)	(769,344)
Gross profit	51,388	41,077	106,220	77,047
Depreciation and amortisation	(4,072)	(2,512)	(7,490)	(5,060)
Operating expenses	(12,305)	(6,711)	(19,519)	(12,827)
Other operating income	1,009	912	1,723	1,319
Profit from operations	36,020	32,766	80,934	60,479
Interest expense	(2,287)	(1,651)	(4,412)	(2,897)
Interest income	1,121	1,423	2,136	2,239
Share of results of associates	93	62	176	118
Share of results of jointly controlled entities	2	5	4	10
Profit before taxation	34,949	32,605	78,838	59,949
Taxation	(7,699)	(10,929)	(18,526)	(20,252)
Net profit	27,250	21,676	60,312	39,697
Attributed to :				
- Equity holders of the Company	27,250	21,676	60,312	39,697
- Minority Interests	-	-	-	-
Net profit	27,250	21,676	60,312	39,697
Earnings per share :				
- basic (sen)	3.02	2.43	6.69	4.45
- diluted (sen)	3.01	-	6.65	-

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 JANUARY 2009**

	As at 31.01.2009 Unaudited RM'000	As at 31.07.2008 Audited RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	302,808	273,233
Goodwill	36,166	36,166
Investments in associates	61,752	28,375
Investments in jointly controlled entities	23	19
Other investment	67	68
	<u>400,816</u>	<u>337,861</u>
Current Assets		
Inventory	810	817
Receivables, deposits and prepayments	212,643	271,803
Current tax assets	-	628
Cash and cash equivalents	243,526	259,523
	<u>456,979</u>	<u>532,771</u>
Total assets	<u>857,795</u>	<u>870,632</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	90,200	90,200
Share premium	78,129	78,129
Other reserves	3,040	668
Retained profits	202,575	142,263
	<u>373,944</u>	<u>311,260</u>
Minority interests	-	-
Total equity	<u>373,944</u>	<u>311,260</u>
Non-current liabilities		
Long term borrowings	57,347	59,904
Deferred tax liability	23,174	22,793
	<u>80,521</u>	<u>82,697</u>
Current Liabilities		
Short term borrowings	102,346	90,977
Payables and accruals	293,827	383,167
Tax liabilities	7,157	2,531
Total current liabilities	<u>403,330</u>	<u>476,675</u>
Total liabilities	<u>483,851</u>	<u>559,372</u>
Total equity and liabilities	<u>857,795</u>	<u>870,632</u>
Net assets per share (RM)	<u>0.41</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 JANUARY 2009**

	-----Attributable to the equity holders of the Company -----					Minority Interests	Total Equity
	----- Non-distributable -----			Distributable			
	Share Capital RM'000	Share premium RM'000	Share option reserve RM'000	Retained profits RM'000	Total RM'000	RM'000	RM'000
At 1 August 2007	89,150	73,510	123	57,153	219,936	-	219,936
Profit for the year	-	-	-	85,110	85,110	(40)	85,070
Share-based payment	-	-	965	-	965	-	965
Share options exercised	1,050	4,200	-	-	5,250	-	5,250
Transfer to share premium for share options exercised	-	420	(420)	-	-	-	-
Issuance of ordinary shares of a subsidiary to minority interest	-	-	-	-	-	40	40
Share issue expenses	-	(1)	-	-	(1)	-	(1)
At 31 July 2008	90,200	78,129	668	142,263	311,260	-	311,260
At 1 August 2008	90,200	78,129	668	142,263	311,260	-	311,260
Profit for the period	-	-	-	60,312	60,312	-	60,312
Share-based payment	-	-	2,372	-	2,372	-	2,372
At 31 January 2009	90,200	78,129	3,040	202,575	373,944	-	373,944

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)

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2009**

	Current Year-to-date 01.08.2008 to 31.01.2009 RM'000	Preceding Year-to-date 01.08.2007 to 31.01.2008 RM'000
Net cash generated from operating activities	43,338	129,937
Net cash used in investing activities	(68,147)	(97,198)
Net cash used in financing activities	<u>13,510</u>	<u>51,986</u>
Net (decrease)/increase in cash and cash equivalents	(11,299)	84,725
Cash and cash equivalents at beginning of financial period	226,640	101,886
Cash and cash equivalents at end of financial period	<u><u>215,341</u></u>	<u><u>186,611</u></u>
Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	183,391	161,701
Short term deposits	60,135	82,854
Bank overdraft	<u>-</u>	<u>(833)</u>
	243,526	243,722
Deposits pledged	<u>(28,185)</u>	<u>(57,111)</u>
	<u><u>215,341</u></u>	<u><u>186,611</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

The first and final single tier dividend of 5% per ordinary share of 10 sen each in respect of the financial year ended 31 July 2008, amounting to RM4.51 million, was paid on 10 March 2009.

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 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

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.

Material Litigation

- (a) Kencana Bestwide, a wholly-owned subsidiary of the Company, filed a 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.
- (b) A claimant filed a Summons in the Kuala Lumpur High Court on 15 September 2008 against Kencana HL as the second defendant for inter-alia a sum of RM1,731,388.92, interest payment of RM1,131,635.90, damages and other costs being outstanding payment due and owing by Kencana HL for work done and services rendered by the said claimant and wrongful termination by Kencana HL of the said claimant as a sub-contractor for Kencana HL. Kencana HL, through its solicitors, has filed a Defence and served the same on the said claimant's solicitors. On 10 December 2008 the claimant's solicitors served a Reply to Kencana HL's Defence. No Court date has been fixed to date by the Court.

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 2009 were as follows:

	As at 31.01.2009 RM'000
Approved and contracted for	
Purchase of property, plant and equipment	<u>6,713</u>

14. SUBSEQUENT EVENTS

On 12 March 2009, Kencana Petroleum Ventures Sdn Bhd ("Kencana Petroleum Ventures") acquired 42,000 ordinary shares of RM1.00 each in Malaysian Engineering and Oilfield Services Sdn Bhd ("MEOSSB") representing 21% of the issued and paid-up ordinary share capital of MEOSSB at a consideration of RM300,000.

Additionally, Kencana Petroleum Ventures had on 12 March 2009, acquired 27,000 ordinary shares of RM1.00 each in Teras Muhibah Sdn Bhd ("TMSB") representing 27% of the issued and paid-up ordinary share capital of TMSB at a consideration of RM500,000.

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 RM274.1 million and profit before taxation of RM34.9 million. Compared to the corresponding quarter ended 31 January 2008 of RM351.4 million, revenue had decreased by approximately 22% 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 7% from RM32.6 million to RM34.9 million due to better margin recorded and favourable closure of contracts.

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

Profit before tax had decreased by approximately 20% for the current quarter under review at RM34.9 million, as compared to the immediate preceding quarter of RM43.9 million. The decrease in profit before tax for the current quarter was mainly due to decrease in revenue.

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. 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 reasonably 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.

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19. TAXATION

	2nd Quarter		Cumulative Quarter	
	01.11.2008 To 31.01.2009 RM'000	01.11.2007 To 31.01.2008 RM'000	01.08.2008 To 31.01.2009 RM'000	01.08.2007 To 31.01.2008 RM'000
Income tax expense	7,285	10,599	18,145	19,788
Deferred tax expense	414	330	381	464
	<u>7,699</u>	<u>10,929</u>	<u>18,526</u>	<u>20,252</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 January 2009.

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.

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- (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.
- (c) On 12 March 2009, Kencana Petroleum Ventures entered into Subscription and Shareholders’ Agreement (“SSA”) with Inno Serangkai Sdn Bhd (“ISSB”), Syed Mukhsin bin Syed Alwi, and Malaysian Engineering and Oilfield Services Sdn Bhd (“MEOSSB”) for the former to invest a total value of USD3 million in MEOSSB by way of purchase of 42,000 ordinary shares of RM1.00 each in MEOSSB which represents 21% of the issued and paid-up ordinary share capital of MEOSSB, and subscription of new redeemable preference shares of RM1.00 each in MEOSSB.

Additionally, Kencana Petroleum Ventures had on 12 March 2009, also entered into SSA with ISSB, Inno Senada Sdn Bhd, MEOSSB and Teras Muhibah Sdn Bhd (“TMSB”) for the former to invest a total value of USD14 million in TMSB by way of purchase of 27,000 ordinary shares of RM1.00 each in TMSB from Inno Senada Sdn Bhd which represents 27% of the issued and paid-up ordinary share capital of TMSB and subscription of new redeemable preference shares of RM1.00 each in TMSB.

Save as disclosed above, there is no other corporate proposal announced but not completed as at 24 March 2009.

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23. LOANS AND BORROWINGS

	As at 31.01.2009 RM'000	As at 31.07.2008 RM'000
Short-term borrowings		
Secured:		
Bankers' acceptance	-	4,298
Term loans	8,579	9,892
Hire purchase liabilities	11,793	9,974
Unsecured:		
Bank overdraft	-	339
Term loan	66,474	66,474
Revolving credits	15,500	-
	<u>102,346</u>	<u>90,977</u>
Long-term borrowings		
Secured:		
Term loans	36,449	41,135
Hire purchase liabilities	20,898	18,769
	<u>57,347</u>	<u>59,904</u>
Total borrowings	<u>159,693</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 24 March 2009.

25. CHANGES IN MATERIAL LITIGATION

As at 24 March 2009, there was no material litigation against the Group except as disclosed in Note 12.

26. DIVIDEND PROPOSED

No interim dividend was proposed or declared for the current financial period under review.

KENCANA PETROLEUM BERHAD (667490-M)
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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>2nd Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.11.2008</u> <u>to</u> <u>31.01.2009</u>	<u>01.11.2007</u> <u>to</u> <u>31.01.2008</u>	<u>01.08.2008</u> <u>To</u> <u>31.01.2009</u>	<u>01.08.2007</u> <u>To</u> <u>31.01.2008</u>
Net profit attributable to equity holders of the Company (RM'000)	27,250	21,676	60,312	39,697
Weighted average number of ordinary shares in issue ('000)	902,000	891,842	902,000	891,671
Basic EPS (sen)	<u>3.02</u>	<u>2.43</u>	<u>6.69</u>	<u>4.45</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>2nd Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.11.2008</u> <u>to</u> <u>31.01.2009</u>	<u>01.11.2007</u> <u>to</u> <u>31.01.2008</u>	<u>01.08.2008</u> <u>To</u> <u>31.01.2009</u>	<u>01.08.2007</u> <u>To</u> <u>31.01.2008</u>
Net profit attributable to equity holders of the Company (RM'000)	27,250	21,676	60,312	39,697
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	906,683	891,842	906,683	891,671
Diluted EPS (sen)	<u>3.01</u>	<u>2.43</u>	<u>6.65</u>	<u>4.45</u>

KENCANA PETROLEUM BERHAD (667490-M)
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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 24 March 2009.

BY ORDER OF THE BOARD

Ng Heng Hooi
(MAICSA 7048492)
Company Secretary
Kuala Lumpur
24 March 2009`