

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

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**6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****6.1 BASIS OF PREPARATION (CONT'D)**

For this set of financial statements, Petra Energy Group and Petra Resources have chosen not to early adopt the following FRSs:-

- |         |  |
|---------|--|
| FRS 117 | Leases, which is effective for the financial periods beginning on or after 1 October 2006.                                     |
| FRS 124 | Related Party Disclosures, which is effective for the financial periods beginning on or after 1 October 2006.                  |
| FRS 139 | Financial Instruments: Recognition and Measurement, for which the MASB has yet to announce the effective date of the standard. |

**6.2 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by Petra Energy Group and Petra Resources in the preparation of this report are as follows:-

**(a) Basis of Consolidation**

The Group adopts the merger method of consolidation. Under the merger method of accounting, the results of the subsidiary are presented as if the merger had been effected throughout the current and previous financial years. On consolidation, the difference between the carrying value of the investment in the subsidiary company over the nominal value of the shares acquired is taken to merger reserve.

**(b) Subsidiaries**

A subsidiary is defined as a company, in which the Group has a long term interest, directly or indirectly, of more than 50% of the equity share capital and has control over its financial and operating policies, so as to obtain benefits from its activities.

Investments in subsidiaries, which are eliminated on consolidation, are stated at cost less impairment losses. Impairment losses are charged to the income statement.

On disposal, the difference between the net disposal proceeds and the carrying amount of the subsidiary disposed of is taken to the income statement.

**16. ACCOUNTANTS' REPORT (Cont'd)****6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****6.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(c) Property, Plant and Equipment**

Property, plant and equipment are initially stated at cost, less subsequent depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Leasehold land is amortised in equal instalments over the period of the respective leases. Other property, plant and equipment are depreciated on the straight line basis to write off the cost of the assets to their residue values over their estimated useful lives, summarised as follows:-

Vessels	4% - 10%
Leasehold land	Amortise over the remaining useful lives
Leasehold building	2%
Plant and machinery	10%
Cabin, field and workshop equipment	10% - 20%
Motor vehicle	20%
Furniture, fittings and office equipment	10% - 20%
Others	20% - 50%

Residue values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. Any revision is accounted for as a change in accounting estimate. At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indication exist, an analysis is performed to access whether the carrying amount of the asset is fully recoverable. A writedown is made if the carrying amount exceeds the recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss from operations.

**(d) Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost is determined on a first-in-first-out basis. The cost of raw materials and consumable goods comprises the original purchase price plus cost incurred in bringing the inventories to their present location. Finished goods and work-in-progress consist of the cost of direct materials, direct labour, other direct costs and related production overheads. Goods-in-transit consist of cost of direct materials only.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.



## 6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

### 6.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (e) Receivables

Receivables are stated at cost less allowance for doubtful debts.

All known bad debts are written off and an allowance is made for any receivables considered to be doubtful of collection.

#### (f) Share Capital

Ordinary shares are recorded at the nominal value and proceeds received in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Other shares are classified as equity or liability according to the economic substance of the particular instrument. Costs incurred which are directly attributable to the issuance of the shares are accounted for as a deduction from share premium, if any, otherwise it is charged to the income statement.

Dividends to shareholders are recognised in equity in the period in which they are declared.

#### (g) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services rendered.

#### (h) Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance leases are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses.

In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's incremental borrowing rate is used.

All other leases are treated as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.



## 6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

### 6.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (i) Revenue Recognition

Revenue earned from the sale of the Group's products and services is recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance.

The time charter equivalent of income from the Group's various ship chartering activities are recognised on a time proportion basis.

Revenue from contracts is recognised on the percentage of completion method, measured by reference to completion of a physical proportion of the contract work.

Interest income is recognised in the income statement on an accrual basis.

#### (j) Contract Revenue and Expenditure

Contract revenue and contract expenditure associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date and when the outcome of a contract can be reliably estimated.

The stage of completion of contract is determined based on completion of physical proportion of the contract work.

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

When it is probable that total contract expenditure will exceed total contract revenue, the expected loss is recognised as an expense immediately as an allowance for foreseeable loss.

The aggregate of the costs incurred and the profit or loss recognised in each contract is compared against the progress billings up to the financial year end. Where costs incurred and recognised profit (less recognised losses) exceed the progress billings, the balance is shown as amount due from customers on construction contracts under receivables. Where progress billings exceed costs incurred and recognised profit (less recognised losses), the balance is shown as amount due to customers on construction contracts under payables.



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

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**6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****6.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(k) Impairment of Assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. Impairment losses are recognised in the income statements, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

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 reflect current market assessments of the time value of money and the risk specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

**(l) Employee Benefits****(i) Short term employee benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by the employees of the Group. Short term accumulating compensated absences such as paid annual 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 absences occur.

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

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**6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****6.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(l) Employee Benefits (Cont'd)****(ii) Post-employment benefits**

The Group pays monthly contributions to the Employees Provident Fund ("EPF") which is a defined contribution plan.

The legal or constructive obligations of the Group is limited to the amount that they agree to contribute to the EPF. The contributions to the EPF are charged to the income statement in the period to which they relate.

**(m) Borrowing Costs**

All borrowing costs are charged to the income statement in the year in which they are incurred. The interest component of hire purchase payment is charged to the income statement over the hire purchase period so as to give a constant periodic rate of interest on the remaining hire purchase liabilities.

**(n) Taxation**

The tax expense in the income statement represents the aggregate amount of current tax and deferred tax included in the determination of net profit or loss for the period.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

**(o) Transactions in Foreign Currencies**

Transactions in foreign currencies are translated into Ringgit Malaysia at the exchange rates ruling at the time of the transactions or at contracted rates where applicable. Outstanding balances at year end are translated at the rates then ruling or at contracted rates. All exchange differences are included in the income statements.

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

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**6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****6.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(p) Cash and Cash Equivalents**

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement, cash and cash equivalents are exclude fixed deposits charged.

**(q) Financial Instruments**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The Group's financial instruments are recognised in the balance sheet when a contractual relationship has been established. The accounting policies and methods adopted, including the basis of measurement applied, are disclosed above where relevant. The information about the extent and nature of these recognised financial instruments, including significant terms and conditions, that may affect the amount, timing and certainty of future cash flows are disclosed in the respective notes below, where applicable.

There are no financial instruments not recognised in the balance sheet.

**(r) Disclosure of Fair Value****(i) *Cash and cash equivalents, trade and other receivables, trade and other payables***

The carrying amounts of these instruments approximate fair values because of their short period to maturity.

**(ii) *Hire purchase payables***

The fair values of the Group's hire purchase payables approximate their carrying amounts.

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

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**6. ACCOUNTING STANDARDS AND POLICIES (CONT'D)**

**6.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(s) Critical Accounting Estimates and Judgements**

*(i) Critical judgements in applying the Group's accounting policies*

In the process of applying the Group's accounting policies, the management is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements.

*(ii) Key sources of estimation uncertainty*

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**6.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES**

There were no material changes in the significant accounting policies adopted by Petra Energy Group and Petra Resources during the Relevant Financial Periods other than the adoption of the new and revised FRSs, as disclosed in Section 6.1, which does not have any material financial effects on the financial statements of Petra Energy Group and Petra Resources for the Relevant Financial Periods.





## 7. AUDITED FINANCIAL STATEMENTS

The following are the audited financial statements of Petra Energy Group and Petra Resources for the Relevant Financial Periods.

Petra Energy only existed in FP 2006, upon the completion of an internal reorganisation by the holding company, Petra Perdana Berhad on 8 March 2006, hence there was no Petra Energy Group financial statements for FY 2004 and FY 2005. For the purpose of this report, the audited financial statements of Petra Resources for FY 2004 to FY 2006 are also presented.

The audited financial statements of the subsidiaries, Petra Fabricators and Petra Boilers, for the Relevant Financial Periods are not shown separately as the results of Petra Resources itself form more than 75% of the Petra Energy Group's profit before taxation.

The financial statements of Petra Energy Group and Petra Resources as presented in Sections 7.1 and 7.2 respectively are based on the audited financial statements, modified as appropriate, for the purpose of this report.

All information is extracted from the audited financial statements except those in italics which are prepared based on calculation, representation and explanation provided by the management.

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY

## 7.1.1 INCOME STATEMENTS OF PETRA ENERGY

	Note	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Revenue	7.1.5	-	431,349
Cost of sales		-	(347,337)
Gross profit ("GP")		-	84,012
Other operating income	7.1.6	-	1,906
Operating overheads		-	85,918
(Loss)/Profit from operations		(12)	50,953
Finance costs	7.1.7	-	(10,394)
(Loss)/Profit before taxation ("LBT")/"PBT")		(12)	40,559
Depreciation		-	14,688
Interest expense		-	10,394
Interest income		-	(402)
(Loss)/Earnings before interest, depreciation and taxation		(12)	65,239
Depreciation		-	(14,688)
Interest expense		-	(10,394)
Interest income		-	402
(LBT)/PBT	7.1.8	(12)	40,559
Taxation	7.1.9	-	(11,825)
(Loss)/Profit after taxation ("LAT")/"PAT")		(12)	28,734
GP margin (%)		N/A	19.5
PBT margin (%)		N/A	9.4
PAT margin (%)		N/A	6.7
Effective tax rate (%)		N/A	29.2
Interest coverage ratio (times)		N/A	4.9
Number of ordinary shares in issue of RM0.50 each ('000)		84,000	84,000
Weighted average number of ordinary shares in issue of RM0.50 each ('000)		65,921	84,000
Gross earnings per share ("EPS") * (RM)		#	0.48
Net EPS * (RM)		#	0.34
Gross dividend rate		N/A	N/A

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY (CONT'D)

## 7.1.1 INCOME STATEMENTS OF PETRA ENERGY (CONT'D)

Notes:-

- (i) \* - The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively by the weighted average number of ordinary shares in issue during the Relevant Financial Periods. The Gross EPS and Net EPS computed were not annualised.
- (ii) # - Negligible.

Commentary:-

- (a) The principal activity of the Company is investment holding.
- (b) There were no exceptional or extraordinary items in the Relevant Financial Periods under review.
- (c) The consolidated income statement of Petra Energy for FY 2006 comprised mainly the results of Petra Resources. The commentary on the results of Petra Resources is set out in Section 7.2.1 of this report.

## 7.1.2 BALANCE SHEETS OF PETRA ENERGY

	Note	The Company 31.12.2006 RM'000	The Group 31.12.2006 RM'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investment in subsidiaries	7.1.10	42,000	-
Property, plant and equipment	7.1.11	-	159,701
Deferred taxation	7.1.24	-	6
		42,000	159,707
<b>CURRENT ASSETS</b>			
Inventories	7.1.12	-	32,399
Trade and other receivables	7.1.13	658	184,676
Amount owing by customers for contract works	7.1.14	-	12,746
Amount owing by related companies	7.1.15	-	23
Tax refundable		-	2,489
Fixed deposits with licensed bank	7.1.16	-	15,051
Cash and bank balances		#	16,385
		658	263,769
<b>TOTAL ASSETS</b>		42,658	423,476

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY (CONT'D)

## 7.1.2 BALANCE SHEETS OF PETRA ENERGY (CONT'D)

	Note	The Company 31.12.2006 RM'000	The Group 31.12.2006 RM'000
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	7.1.17	42,000	42,000
Merger deficit	7.1.18	-	(31,000)
(Accumulated losses)/Retained profits		(12)	77,092
		<b>41,988</b>	<b>88,092</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7.1.19	12	56,011
Amount owing to customers for contract works	7.1.14	-	7,365
Amount owing to holding company	7.1.20	391	181,991
Amount owing to a subsidiary	7.1.21	267	-
Amount owing to related companies	7.1.15	-	55,112
Provision for taxation		-	235
Hire purchase payables	7.1.22	-	288
Short-term bank borrowings	7.1.23	-	14,159
		<b>670</b>	<b>315,161</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation	7.1.24	-	19,513
Hire purchase payables	7.1.22	-	710
		<b>-</b>	<b>20,223</b>
<b>TOTAL LIABILITIES</b>		<b>670</b>	<b>335,384</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>42,658</b>	<b>423,476</b>
<i>Number of ordinary shares of RM0.50 each in issue ('000)</i>		<i>84,000</i>	<i>84,000</i>
<i>Net assets ("NA") (RM)</i>		<i>41,988</i>	<i>88,092</i>
<i>Net tangible assets ("NTA") (RM)</i>		<i>41,988</i>	<i>88,092</i>
<i>NA per ordinary share (RM)</i>		<i>0.50</i>	<i>1.05</i>
<i>NTA per ordinary share (RM)</i>		<i>0.50</i>	<i>1.05</i>
<i>Cost of sales ^</i>		<i>-</i>	<i>101,319</i>
<i>Inventories turnover period (months)</i>		<i>N/A</i>	<i>3.8</i>
<i>Trade receivables turnover period (months)</i>		<i>N/A</i>	<i>5.0</i>
<i>Purchases ^^</i>		<i>-</i>	<i>211,142</i>
<i>Trade payables turnover period (months)</i>		<i>N/A</i>	<i>2.2</i>
<i>Gearing ratio (times) *</i>		<i>N/A</i>	<i>1.8</i>

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.2 BALANCE SHEETS OF PETRA ENERGY (CONT'D)**

Notes:-

- (i) # - Less than RM1,000.
- (ii) ^ - Cost of sales comprised movement in inventories, purchases and consumables during the Relevant Financial Periods.
- (iii) ^^ - Purchases were in respect of total direct costs incurred, and excluded direct labour costs, depreciation charged and purchases from related companies/parties.
- (iv) \* - Gearing ratio was calculated based on the Company/Group interest-bearing borrowings, which included the amount owing to the holding company of approximately RM142.0 million, divided by the shareholders' equity of the Company/Group at the balance sheet date.

**7.1.3 CASH FLOW STATEMENTS OF PETRA ENERGY**

Note	The Company FP 2006 RM'000	The Group FY 2006 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/Profit before taxation	(12)	40,559
Adjustments for:-		
Depreciation of property, plant and equipment	-	14,688
Bad debt	-	109
Property, plant and equipment written off	-	10
Interest expense	-	10,394
Interest income	-	(402)
Gain on disposal of property, plant and equipment	-	(99)
Operating (loss)/profit before working capital changes	(12)	65,259
Increase in inventories	-	(10,012)
Increase in trade and other receivables	(622)	(39,611)
Increase/(Decrease) in trade and other payables	12	(5,722)
Increase in amount owing by customers on contracts	-	(9,363)
Increase in amount owing to customers on contracts	-	1,199
Increase/(Decrease) in amount owing to holding company	391	(57,855)
Net increase in amount owing by related companies	-	74,095
Increase in amount owing to a subsidiary	231	-
<b>CASH FROM OPERATIONS</b>	<b>-</b>	<b>17,990</b>
Tax paid	-	(2,999)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-</b>	<b>14,991</b>
<b>CARRIED FORWARD</b>	<b>-</b>	<b>14,991</b>

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY (CONT'D)

## 7.1.3 CASH FLOW STATEMENTS OF PETRA ENERGY (CONT'D)

	Note	The Company FP 2006 RM'000	The Group FY 2006 RM'000
NET CASH FROM OPERATING ACTIVITIES BROUGHT FORWARD		-	14,991
CASH FLOWS FOR INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		-	388
Purchase of property, plant and equipment	7.1.25	-	(8,502)
Withdrawal of fixed deposits		-	1,197
Interest income		-	402
NET CASH FOR INVESTING ACTIVITIES		-	(6,515)
CASH FLOWS FROM/(FOR) FINANCING ACTIVITIES			
Repayment of hire purchase payables		-	(273)
Repayment of term loan		-	(687)
Drawdown from revolving credit		-	8,000
Dividend paid		-	(8,957)
Issuance of shares		#	#
Interest expense		-	(10,394)
NET CASH FROM/(FOR) FINANCING ACTIVITIES		#	(12,311)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		#	(3,835)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD/YEAR		-	32,058
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR	7.1.26	#	28,223

Note:-

# - RM2.

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.4 STATEMENTS OF CHANGES IN EQUITY OF PETRA ENERGY**

The Group	Share Capital RM'000	Merger Reserve RM'000	Translation Reserve RM'000	Retained Profits RM'000	Total RM'000
Balance at 1.1.2006	#	-	(5)	48,363	48,358
Shares issued during the financial year	42,000	-	-	-	42,000
Recognised during the financial year	-	(31,000)	-	-	(31,000)
Realisation of translation reserve	-	-	5	(5)	-
Net profit for the financial year	-	-	-	28,734	28,734
Balance at 31.12.2006	42,000	(31,000)	-	77,092	88,092

The Company	Share Capital RM'000	Accumulated Losses RM'000	Total RM'000
Balance at 16.12.2005 (Date of incorporation)	#	-	#
Shares issued during the financial period	42,000	-	42,000
Net loss for the financial period	-	(12)	(12)
Balance at 31.12.2006	42,000	(12)	41,988

Note:-

# - RM2.

**7.1.5 REVENUE**

Revenue earned from the sale of the Petra Energy Group's products and services is recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance. Revenue from contracts is recognised on the percentage of completion method, measured by reference to completion of a physical proportion of the contract work.

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.6 OTHER OPERATING INCOME**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Fixed deposit interest income	-	402
Gain on foreign exchange - realised	-	1,176
Gain on disposal of property, plant and equipment	-	99
Rental income	-	64
Sale of scrap	-	129
Other income received	-	36
	-	1,906

**7.1.7 FINANCE COSTS**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Interest expenses:		
- charged by holding company	-	9,393
- hire purchase	-	41
- bank borrowings	-	268
- other finance charges	-	692
	-	10,394



**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.8 (LOSS)/PROFIT BEFORE TAXATION**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
(Loss)/Profit before taxation is arrived at after charging/(crediting):-		
Auditors' remuneration:		
- current	5	130
- underprovision in prior year	-	1
Bad debt	-	109
Depreciation of property, plant and equipment	-	14,688
Directors' remuneration		
- other emoluments	-	1,780
- benefits-in-kind	-	216
Hire of equipment	-	8,742
Loss on disposal of subsidiary	-	8
Loss on foreign exchange - unrealised	-	325
Property, plant and equipment written off	-	10
Rental of premises	-	1,369
Gain on foreign exchange - realised	-	(1,176)
Gain on disposal of property, plant and equipment	-	(99)
Interest income	-	(402)
Rental income	-	(64)
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## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY (CONT'D)

## 7.1.9 TAXATION

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Malaysian income tax		
- for the current financial period/year	-	1,368
- overprovision in the previous financial period/year	-	(14)
	-	1,354
Foreign taxation		
- overprovision in the previous financial period/year	-	(1)
Deferred taxation		
- for the current financial period/year	-	10,291
- underprovision in the previous financial period/year	-	181
	-	10,472
	-	11,825

A reconciliation of income tax expense applicable to the (loss)/profit for the financial period/year at the statutory tax rate to income tax expense at the effective tax rate of the Petra Energy is as follows:-

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
(Loss)/Profit before taxation	(12)	40,559
Tax at the statutory tax rate of 28%	(3)	11,357
Tax effects of:-		
Non-taxable gains	-	(64)
Non-deductible expenses	3	366
Underprovision in previous period/year	-	166
	-	11,825

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.10 INVESTMENT IN SUBSIDIARIES**

	The Company FP 2006 RM'000
Unquoted shares, at cost	<u>42,000</u>

Details of the subsidiaries, which are incorporated in Malaysia, are as follows:-

Name of Company	Effective Equity Interest FP 2006	Principal Activities
Petra Resources Sdn. Bhd.	100%	Provision of services in operations and maintenance, oil field optimisation, retrofits, domestic vessels recharter, geophysical, design and fabrication of process equipment and packaging and supply of engineered equipment for the oil and gas industry.
Petra Fabricators Sdn. Bhd.	100%	Design, fabrication, supply and installation of pressure vessels, heat exchangers, skid packages and other process equipment primarily for oil and gas, and petrochemical industries.
Interest held through Petra Fabricators Sdn. Bhd.		
Petra Boilers Sdn. Bhd.	100%	Design, fabrication, supply and installation of industrial boilers and ancillary equipment.

During the financial period, Petra Perdana Berhad, the holding company has completed the internal reorganisation which involved the Petra Energy Group. The entire equity interest of one of the subsidiaries, namely Petra Resources (S) Pte. Ltd, a subsidiary of Petra Resources, was transferred to the holding company for a total cash consideration of RM1. Meanwhile, Petra Perdana Berhad transferred its entire equity interest in Petra Resources and Petra Fabricators to the Company for a total consideration of RM41,999,998 satisfied by the issuance of 83,999,996 ordinary shares of RM0.50 each.

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY (CONT'D)

## 7.1.11 PROPERTY, PLANT AND EQUIPMENT

The Group	At 1.1.2006 RM'000	Additions RM'000	Disposals/ Write-off RM'000	Reclassifications/ Transfers RM'000	Depreciation Charge RM'000	At 31.12.2006 RM'000
Net Book Value						
Vessels	129,296	840	(83)	4	(6,459)	123,598
Leasehold land	1,107	-	-	6,310	(70)	7,347
Leasehold building	3,052	-	-	-	(139)	2,913
Plant and machinery	3,554	252	(10)	(4)	(889)	2,903
Cabin, field and workshop equipment	18,443	5,685	(43)	-	(5,507)	18,578
Motor vehicles	697	1,292	-	-	(440)	1,549
Furniture, fittings and office equipment	933	289	(8)	-	(369)	845
Others	1,785	721	(1)	-	(815)	1,690
Building-in-progress	-	278	-	-	-	278
	<b>158,867</b>	<b>9,357</b>	<b>(145)</b>	<b>6,310</b>	<b>(14,688)</b>	<b>159,701</b>

At 31.12.2006	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Vessels	135,795	(12,197)	123,598
Leasehold land	7,721	(374)	7,347
Leasehold building	5,772	(2,859)	2,913
Plant and machinery	10,786	(7,883)	2,903
Cabin, field and workshop equipment	30,155	(11,577)	18,578
Motor vehicles	3,565	(2,016)	1,549
Furniture, fittings and office equipment	3,685	(2,840)	845
Others	7,606	(5,916)	1,690
Building-in-progress	278	-	278
	<b>205,363</b>	<b>(45,662)</b>	<b>159,701</b>

At 31.12.2005	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Vessels	135,030	(5,734)	129,296
Leasehold land	1,274	(167)	1,107
Leasehold building	5,772	(2,720)	3,052
Plant and machinery	10,559	(7,005)	3,554
Cabin, field and workshop equipment	24,513	(6,070)	18,443
Motor vehicles	2,941	(2,244)	697
Furniture, fittings and office equipment	3,528	(2,595)	933
Others	7,031	(5,246)	1,785
	<b>190,648</b>	<b>(31,781)</b>	<b>158,867</b>

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.11 PROPERTY, PLANT AND EQUIPMENT**

The property, plant and equipment acquired under hire purchase and lease terms were carried at a total net book value of:-

	The Group FY 2006 RM'000
Motor vehicles	1,355

**7.1.12 INVENTORIES**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
At cost:-		
Finished goods	-	3,695
Work-in-progress	-	19,410
Goods-in-transit	-	7,337
Raw materials	-	272
Consumables	-	1,685
	-	32,399

**7.1.13 TRADE AND OTHER RECEIVABLES**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Trade receivables	-	187,211
Allowances for doubtful debts	-	(7,478)
	-	179,733
Other receivables, deposits and prepayments	658	4,943
	658	184,676

The normal trade credit terms range from 30 to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.13 TRADE AND OTHER RECEIVABLES (CONT'D)**

Included in gross trade receivables is an amount of approximately RM7.4 million which relates to income recognised in the previous financial year by a subsidiary on disputed unit of measurement of work completed. Specific allowance for the full amount had been made in the previous financial year in the financial statements of the subsidiary.

Included in other receivables of Petra Energy Group is an amount of approximately RM1.7 million for cost incurred on rectification work. Legal action was taken against the creditor for the recovery of cost incurred as stated in Note 7.1.31 below.

The foreign currency exposure profile of the trade and other receivables is as follows:-

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
United States Dollar	-	23,971
Singapore Dollar	-	48
Brunei Dollar	-	133
Pound Sterling	-	295
Euro	-	603

*The trade receivables ageing analysis of Petra Energy Group for FY 2006 is set out below:-*

	0 to 30 Days RM'000	31 to 60 Days RM'000	61 to 90 Days RM'000	> 90 Days RM'000	Total RM'000
<i>Balance as at 31.12.2006</i>	<u>107,867</u>	<u>23,527</u>	<u>7,350</u>	<u>40,989</u>	<u>179,733</u>
<i>% of trade receivables</i>	<u>60.0</u>	<u>13.1</u>	<u>4.1</u>	<u>22.8</u>	<u>100.0</u>

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.14 AMOUNT OWING BY/(TO) CUSTOMERS FOR CONTRACT WORKS**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Contract expenditure	-	36,548
Add: Attributable profits less losses	-	10,204
	-	46,752
Less: Progress billings	-	(41,371)
	-	5,381
Amount owing by customers on contracts	-	12,746
Amount owing to customers on contracts	-	(7,365)
	-	5,381

**7.1.15 AMOUNT OWING BY/(TO) RELATED COMPANIES**

The amounts owing are unsecured, interest-free and not subject to fixed terms of repayment.

**7.1.16 FIXED DEPOSITS WITH LICENSED BANK**

The effective interest rates of Petra Energy Group's fixed deposits range from 2.40% to 3.70% per annum. All deposits have maturity terms of less than one year.

Included in Petra Energy Group's fixed deposits is an amount of RM320,948 charged to secure banking facilities granted to Petra Energy Group.

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.17 SHARE CAPITAL**

	Par value RM	Number of shares '000	RM'000
<b>AUTHORISED:-</b>			
At 16.12.2005 (Date of incorporation)	1.00	100	100
Sub-division of ordinary shares of RM1.00 each to RM0.50 each	0.50	100	-
Created during the financial year	0.50	999,800	499,900
At 31.12.2006	0.50	<u>1,000,000</u>	<u>500,000</u>
<b>ISSUED AND FULLY PAID-UP:-</b>			
At 16.12.2005 (Date of incorporation)	1.00	*	#
Sub-division of ordinary shares of RM1.00 each to RM0.50 each	0.50	*	-
Allotment during the financial year	0.50	84,000	42,000
At 31.12.2006	0.50	<u>84,000</u>	<u>42,000</u>

Notes:-

# - RM2.

\* - 2 ordinary shares.

**7.1.18 MERGER DEFICIT**

The merger deficit arose from the internal reorganisation as set out in Note 7.1.10 using the merger method of accounting.

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY (CONT'D)

## 7.1.19 TRADE AND OTHER PAYABLES

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Trade payables	-	39,307
Other payables and accruals	12	16,704
	<u>12</u>	<u>56,011</u>

The normal trade credit terms granted to Petra Energy Group range from 30 to 60 days.

The foreign currency exposure profile of trade payables is as follows:-

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
United States Dollar	-	4,013
Singapore Dollar	-	494
Brunei Dollar	-	70
Pound Sterling	-	106
Euro	-	357
Australia Dollar	-	449
New Zealand Dollar	-	8

The trade payables ageing analysis of Petra Energy Group for FY 2006 is set out below:-

	0 to 30 Days RM'000	31 to 60 Days RM'000	61 to 90 Days RM'000	> 90 Days RM'000	Total RM'000
Balance as at 31.12.2006	<u>20,145</u>	<u>10,931</u>	<u>3,374</u>	<u>4,857</u>	<u>39,307</u>
% of trade payables	<u>51.2</u>	<u>27.8</u>	<u>8.6</u>	<u>12.4</u>	<u>100.0</u>

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.20 AMOUNT OWING TO HOLDING COMPANY**

The holding company is Petra Perdana Berhad, a public limited liability company incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Interest-bearing balances	-	141,973
Non interest-bearing balances	391	40,018
	<u>391</u>	<u>181,991</u>

The amounts owing are unsecured and not subject to fixed terms of repayment.

The interest-bearing balances bear interest at commercial rates which vary according to the cost of funds of certain reference banks. The effective interest rates range from 5.40% to 6.85% per annum.

**7.1.21 AMOUNT OWING TO A SUBSIDIARY**

The amount owing is unsecured advances, interest-free and not subject to fixed terms of repayment.

**7.1.22 HIRE PURCHASE PAYABLES**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Future minimum hire purchase payments	-	1,148
Less: Future finance charges	-	(150)
Present value of hire purchase payables	<u>-</u>	<u>998</u>

Present value of hire purchase payables are payable as follows:-

Not later than one year	-	288
Later than one year and not later than five years	-	710
	<u>-</u>	<u>998</u>

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.23 SHORT-TERM BANK BORROWINGS**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Secured:-		
Bankers' acceptances	-	2,615
Revolving credit	-	8,000
Short-term loan	-	652
Bank overdraft	-	2,892
	-	14,159

The above banking facilities are secured by a corporate guarantee from the holding company.

The effective interest rates per annum as at 31 December 2006 for borrowings were as follows:-

	The Company FP 2006	The Group FY 2006
Bankers' acceptances	-	4.32% to 4.60%
Revolving credit	-	5.12% to 5.21%
Short-term loan	-	8.00%
Bank overdraft	-	8.00%

**7.1.24 DEFERRED TAXATION**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
At 16.12.2005 (Date of incorporation)	-	9,035
Recognised in the income statement	-	10,472
At 31.12.2006	-	19,507

The deferred taxation is mainly in respect of accelerated capital allowances.

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PETRA ENERGY (CONT'D)

## 7.1.24 DEFERRED TAXATION (CONT'D)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the balance sheet:-

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Deferred tax assets	-	(6)
Deferred tax liabilities	-	19,513
	<u>-</u>	<u>19,507</u>

The component of deferred tax assets and liabilities at the end of the financial period/year are as follows:-

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
<b>Deferred tax assets:-</b>		
Accelerated capital allowances	-	2
Others	-	(8)
	<u>-</u>	<u>(6)</u>
<b>Deferred tax liabilities:-</b>		
Accelerated capital allowances	-	19,596
Others	-	(83)
	<u>-</u>	<u>19,513</u>

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.25 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Cost of property, plant and equipment purchased	-	9,357
Amount financed through hire purchase	-	(855)
Cash disbursed for the purchase of property, plant and equipment	-	8,502

**7.1.26 CASH AND CASH EQUIVALENTS**

For the purpose of the cash flow statements, cash and cash equivalents comprise the following:-

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Cash in hand and at bank	#	16,385
Fixed deposits with licensed banks	-	15,051
Bank overdraft	-	(2,892)
	#	28,544
Less: Fixed deposits on lien	-	(321)
	#	28,223

Note:-

# - RM2.

**7.1.27 EMPLOYEE INFORMATION**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Staff costs	-	19,025

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.28 SIGNIFICANT RELATED PARTY TRANSACTIONS**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Purchases from related companies	-	57,803
Sales to related companies	-	5,535
Rental paid to holding company	-	282
Rental received from related company	-	64
Loan interest and charges paid to holding company	-	9,393
Management fee to holding company	-	3,240

Transactions entered into with the holding company's substantial shareholder's companies are as follows:-

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Rental paid to KNS Property Sdn. Bhd.	-	214
Subcontracted to Damai Teknik Sdn. Bhd.	-	653

The directors of the Petra Energy are of the opinion that the above transactions have been entered into in the normal course of business.

**7.1.29 SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD/YEAR**

Significant events which occurred during the financial period/year are set out as follows:-

- (a) Petra Energy was incorporated on 16 December 2005 and the principal activity of the Company is investment holding.
- (b) On 8 March 2006, Petra Perdana Berhad, the ultimate holding company completed the internal reorganisation of the Petra Energy Group. The entire equity interest of Petra Resources (S) Pte Ltd, a subsidiary of Petra Resources, was transferred to the holding company for a total cash consideration of RM1. Meanwhile, Petra Perdana Berhad transferred its entire equity interest in Petra Resources and Petra Fabricators to Petra Energy for a total consideration of RM41,999,998 satisfied by the issuance of 83,999,996 ordinary shares of RM0.50 each.

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.29 SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD/YEAR (CONT'D)**

- (c) On 14 March 2006, Petra Resources, a subsidiary was awarded three contracts, namely Provision of Electrical and Instrument Maintenance Services by Sarawak Shell Berhad/Sabah Shell Petroleum Company Limited and Provision of Offshore Crane Operations and Maintenance Services by Shell and Petronas Carigali Sdn Bhd for their Sarawak and Sabah Operations. Petra Energy Group estimates the three contracts to be valued at approximately RM120 million in total for the primary terms based on the scope at the time of submission of the bid.
- (d) Petra Energy changed its name from Portfolio Hitech Sdn Bhd to Petra Energy Sdn. Bhd. on 1 June 2006.
- (e) On 4 July 2006, Petra Resources, a subsidiary served a Notice of Arbitration on ExxonMobil Exploration and Production Malaysia Inc. for the payment of a balance sum of RM8,973,366 which to-date remains outstanding, together with damages, interest and costs. The Board of Directors has good grounds in demanding the payment of the outstanding amount and hence has taken action in instituting the arbitration proceedings in the best interest of the subsidiary.
- (f) On 6 July 2006, the Board of Directors of Petra Perdana Berhad, the holding company, proposed to seek a listing of Petra Energy on the Main Board of Bursa Malaysia Securities Berhad.
- (g) On 24 July 2006, Petra Energy received approval from Companies Commission of Malaysia to convert Petra Energy to a public limited liability company.
- (h) On 12 December 2006, the Ministry of International Trade and Industry had vide its letter approved the Proposed Flotation Scheme, which consists of the Proposed Repayment, Propose Public Issue, Proposed Bonus Issue and Propose Listing.

**7.1.30 SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE**

Subsequent events after the balance sheet date are set out as follows:-

- (a) On 19 January 2007, the Securities Commission ("SC") had vide its letter approved the Proposed Flotation Scheme pursuant to Section 32(5) of the SC Act, 1993 and the Foreign Investment Committee's Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests.
- (b) On 30 January 2007, Petra Resources, a subsidiary was awarded a contract by Sarawak Shell Berhad/Sabah Shell Petroleum Company Limited for the Provision of Mechanical and Rotating Equipment Maintenance Workshop and Services. The contract is estimated to be valued at approximately RM55 million for the primary term of five years and is expected to commence on 1 February 2007.

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.31 PENDING LITIGATION**

Best Wide Matrix Sdn. Bhd. filed a Writ of Summons and Statement of Claims for a total sum of approximately RM1.1 million against Petra Fabricators, a subsidiary on 24 September 2003, for goods and services rendered.

The subsidiary has filed a Defence and Counter-claim for a sum of approximately RM2.0 million being their rectification costs incurred against Best Wide Matrix Sdn. Bhd.

The Board of Directors is of the opinion that Petra Energy Group has a reasonably good prospect to succeed in the proceedings. Therefore, no provision is made for the rectification cost incurred as stated in Note 7.1.13 above.

**7.1.32 CAPITAL COMMITMENT**

	The Company FP 2006 RM'000	The Group FY 2006 RM'000
Contractual commitment for acquisition of property, plant and equipment	-	1,263

**7.1.33 FOREIGN EXCHANGE RATES**

The principal closing exchange rates used (expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent) for the translation of foreign currency balances at the balance date were as follows:-

	RM
United States Dollar	3.5325
Euro	4.6525
Pound Sterling	6.9295
Australia Dollar	2.7925
Singapore Dollar	2.2998
Brunei Dollar	2.3072
New Zealand Dollar	2.4905

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

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**7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.1 PETRA ENERGY (CONT'D)****7.1.34 FINANCIAL INSTRUMENTS**

Petra Energy Group's activities expose it to a variety of financial risk, including foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk arising in the normal course of Petra Energy Group's businesses.

The directors monitor Petra Energy Group's financial position closely with an objective to minimise potential adverse effects on the financial performance of Petra Energy Group. The directors review and agree on policies for managing each of these risks and they are summarised below:-

**(a) Foreign currency exchange risk**

Petra Energy Group is exposed to currency risk as a result of the foreign currency transactions entered into by the Group in currencies other than its functional currency.

**(b) Interest rate risk**

Petra Energy Group is exposed to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

Petra Energy Group's income and operating cash flows are substantially independent of changes in market interest rates. Exposure to changes in interest rate risk relates primarily to the Group's fixed deposits, bank overdraft and bank borrowings. Fixed deposits generate interest income based on prevailing market rates. Petra Energy Group manages its interest rate risk by placing such deposits on short tenures of less than one year. Petra Energy Group minimises its interest rate risk by borrowing as far as possible at a floating rate which varies according to changes in market interest rates. This has enabled Petra Energy Group to take advantage of cheaper funding during a low interest rate environment.

**(c) Credit risk**

Petra Energy Group seeks to invest cash assets safely and profitably. It also seeks to control credit risks by setting appropriate credit terms and limits for customers and ensuring that sales of products are made to customers with good credit assessment.

Petra Energy Group has a major concentration of credit risk related to 3 major customers that constitutes 76% of total receivables.

Petra Energy Group manages these risks by monitoring credit ratings.

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

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**7. AUDITED FINANCIAL STATEMENTS (CONT'D)**

**7.1 PETRA ENERGY (CONT'D)**

**7.1.34 FINANCIAL INSTRUMENTS (CONT'D)**

**(d) Liquidity and cash flow risk**

Petra Energy Group exercises prudent liquidity risk management to maintain sufficient cash and short term investments and the availability of funding through an adequate amount of credit facilities. Petra Energy Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

**(e) Fair values**

The carrying amounts of the financial assets and liabilities of Petra Energy Group at the balance sheet date approximate their fair values.

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PETRA RESOURCES

## 7.2.1 INCOME STATEMENTS OF PETRA RESOURCES

	Note	Financial Year Ended 31 December		
		2004 RM'000	2005 RM'000	2006 RM'000
Revenue	7.2.5	150,382	396,140	404,833
Cost of sales		(119,057)	(320,586)	(330,857)
Gross profit ("GP")		31,325	75,554	73,976
Other operating income	7.2.6	1,013	2,123	3,243
		32,338	77,677	77,219
Operating overheads		(19,746)	(36,958)	(30,811)
Profit from operations		12,592	40,719	46,408
Finance costs	7.2.7	(672)	(8,861)	(10,090)
Profit before taxation ("PBT")		11,920	31,858	36,318
Depreciation		3,280	12,477	14,183
Interest expense		204	7,889	9,514
Interest income		(172)	(287)	(398)
Earnings before interest, depreciation and taxation		15,232	51,937	59,617
Depreciation		(3,280)	(12,477)	(14,183)
Interest expense		(204)	(7,889)	(9,514)
Interest income		172	287	398
PBT	7.2.8	11,920	31,858	36,318
Taxation	7.2.9	(3,651)	(8,675)	(10,601)
Profit after taxation ("PAT")		8,269	23,183	25,717
<i>GP margin (%)</i>		20.8	19.1	18.3
<i>PBT margin (%)</i>		7.9	8.0	9.0
<i>PAT margin (%)</i>		5.5	5.9	6.4
<i>Effective tax rate (%)</i>		30.6	27.2	29.2
<i>Interest coverage ratio (times)</i>		59.4	5.0	4.8
<i>Number of ordinary shares in issue of RM1.00 each ('000)</i>		8,000	8,000	8,000
<i>Gross earnings per share ("EPS") * (RM)</i>		1.49	3.98	4.54
<i>Net EPS * (RM)</i>		1.03	2.90	3.21

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.1 INCOME STATEMENTS OF PETRA RESOURCES (CONT'D)**

Note:-

- \* - *The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively by the number of ordinary shares in issue during the Relevant Financial Periods.*

Commentary:-

- (a) *Revenue decreased by approximately RM36.6 million or 19.6% in FY 2004 from approximately RM187.0 million mainly due to lower sales for retrofit, engineering and maintenance services to Exxon Mobil Exploration and Production Malaysia Inc. ("Exxon Mobil") as a result of a contract extension which progressed at a slower pace. However, the decrease in revenue was slightly offset by higher sales from engineering and maintenance services and the introduction of domestic vessels recharter services in FY 2004.*

*The gross profit margin for FY 2004 remained fairly constant as compared to FY 2003.*

*The decrease in profit before taxation in FY 2004 by approximately RM3.2 million was due to lower gross profit, partially offset by higher other income and lower operating overheads by approximately RM0.7 and RM1.8 million respectively.*

- (b) *Revenue increased by approximately RM245.8 million or 163.4% in the FY 2005, mainly due to increase in revenue derived from retrofit, engineering and maintenance services as a result of a contract obtained from Sarawak Shell Berhad valued at approximately RM600.0 million which contributed approximately RM192.4 million in revenue in FY 2005. In addition to the Sarawak Shell Berhad contract, Petra Resources also derived additional revenue of RM26.8 million through its domestic vessels recharter services to existing and new customers.*

*The gross profit margin for FY 2005 remained fairly constant as compared to FY 2004.*

*The increase in profit before taxation in FY 2005 by approximately RM19.9 million was consistent with the higher revenue. The increase in operating overheads and finance costs by approximately RM17.2 million and RM8.2 million respectively was mainly due to higher staff costs and allowance for doubtful debts, amounting to approximately to RM4.5 million and RM7.5 million respectively during the financial year whilst the increase in finance costs was mainly due to interest charged on advances from Petra Perdana at rates ranging from 4.05% to 5.79%.*

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16. ACCOUNTANTS' REPORT (Cont'd)

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**7. AUDITED FINANCIAL STATEMENTS (CONT'D)**

**7.2 PETRA REOURCES (CONT'D)**

**7.2.1 INCOME STATEMENTS OF PETRA RESOURCES (CONT'D)**

*Commentary (Cont'd):-*

- (c) *Revenue increased by approximately RM8.7 million or 2.2% in the FY 2006, mainly due to additional revenue from Sarawak Shell Berhad and Alam Maritim (M) Sdn. Bhd., from approximately RM241.0 million to approximately RM283.5 million, 17.7% higher as compared to the previous financial year. However, the increase in revenue was partially off set by the decrease in sales to Exxon Mobil and Petronas Carigali Sdn. Bhd. of approximately RM36.5 million due to completion of certain projects.*

*The gross profit margin for FY 2006 remained fairly constant as compared to FY 2005.*

*The increase in profit before taxation in FY 2006 by approximately RM4.5 million was mainly due to decrease in operating overheads. The decrease in operating overheads by approximately RM6.2 was mainly due to allowance for doubtful debts made in FY 2005 of approximately RM7.5 million.*

- (d) *The effective tax rates for FY 2004 and FY 2006 were slightly higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes whilst the effective tax rate for FY 2005 was slightly lower than the statutory tax rate mainly due to certain non-taxable gains.*
- (e) *There were no exceptional or extraordinary items in the Relevant Financial Periods under review.*

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PETRA RESOURCES (CONT'D)

## 7.2.2 BALANCE SHEETS OF PETRA RESOURCES

	Note	As at 31 December		
		2004 RM'000	2005 RM'000	2006 RM'000
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Investment in a subsidiary	7.2.10	454	#	-
Property, plant and equipment	7.2.11	9,759	155,439	149,766
Other investment	7.2.12	4,460	-	-
		<u>14,673</u>	<u>155,439</u>	<u>149,766</u>
<b>CURRENT ASSETS</b>				
Inventories	7.2.13	30,813	19,604	29,366
Trade receivables	7.2.14	42,679	127,147	168,530
Other receivables, deposits and prepayments	7.2.15	21,769	4,047	1,855
Amount owing by immediate holding company	7.2.16	-	-	268
Amount owing by subsidiary	7.2.17	1,647	99	-
Amount owing by related companies	7.2.18	18,744	33,562	6,822
Tax refundable		-	895	2,326
Fixed deposits with licensed bank	7.2.19	7,003	17,656	15,051
Cash and bank balances		4,515	13,943	16,374
		<u>127,170</u>	<u>216,953</u>	<u>240,592</u>
<b>TOTAL ASSETS</b>		<u>141,843</u>	<u>372,392</u>	<u>390,358</u>
<b>EQUITY AND LIABILITIES</b>				
<b>CAPITAL AND RESERVES</b>				
Share capital	7.2.20	8,000	8,000	8,000
Retained profits	7.2.21	41,458	48,081	73,798
		<u>49,458</u>	<u>56,081</u>	<u>81,798</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	7.2.22	16,630	45,060	35,493
Other payables and accruals	7.2.23	2,721	19,560	14,776
Amount owing to ultimate holding company	7.2.24	70,132	233,319	174,922
Amount owing to related companies	7.2.18	1,138	8,881	55,858
Provision for taxation		1,108	-	-
Hire purchase payables	7.2.25	143	130	288
Short-term bank borrowings	7.2.26	-	-	7,000
		<u>91,872</u>	<u>306,950</u>	<u>288,337</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred taxation	7.2.27	493	9,081	19,513
Hire purchase payables	7.2.25	20	280	710
		<u>513</u>	<u>9,361</u>	<u>20,223</u>
<b>TOTAL LIABILITIES</b>		<u>92,385</u>	<u>316,311</u>	<u>308,560</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>141,843</u>	<u>372,392</u>	<u>390,358</u>

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.2 BALANCE SHEETS OF PETRA RESOURCES (CONT'D)**

	<i>As at 31 December</i>		
	2004	2005	2006
<i>Number of ordinary shares of RM1.00 each in issue ('000)</i>	8,000	8,000	8,000
<i>Net assets ("NA") (RM)</i>	49,458	56,081	81,798
<i>Net tangible assets ("NTA") (RM)</i>	49,458	56,081	81,798
<i>NA per ordinary share (RM)</i>	6.18	7.01	10.22
<i>NTA per ordinary share (RM)</i>	6.18	7.01	10.22
<i>Cost of sales <sup>^</sup></i>	91,467	136,201	86,428
<i>Inventories turnover period (months)</i>	4.0	1.7	4.1
<i>Trade receivables turnover period (months)</i>	3.4	3.9	5.0
<i>Purchases <sup>^^</sup></i>	104,067	180,722	171,084
<i>Trade payables turnover period (months)</i>	1.9	3.0	2.5
<i>Gearing ratio (times) *</i>	**	3.0	1.8

**Notes:-**

- (i) # - RM1.
- (ii) ^ - Cost of sales comprised movement in inventories, purchases and consumables during the Relevant Financial Periods.
- (iii) ^^ - Purchases were in respect of total direct costs incurred, and excluded direct labour costs, depreciation charged and purchases from related companies/parties.
- (iv) \* - Gearing ratio was calculated based on interest-bearing borrowings, which includes the amount owing to ultimate holding company, Petra Perdana Berhad of approximately RM169.3 million and RM142.0 million in FY 2005 and FY 2006 respectively, divided by the shareholders' equity at the balance sheet date.
- (v) \*\* - Negligible, less than 0.1.

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.3 CASH FLOW STATEMENTS OF PETRA RESOURCES**

	Note	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
<b>CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES</b>				
Profit before taxation		11,920	31,858	36,318
Adjustments for:-				
Allowance for doubtful debts		-	7,478	-
Depreciation of property, plant and equipment		3,280	12,477	14,183
Bad debt		-	555	109
Impairment loss on investment in subsidiary		-	454	-
Interest expense		204	7,889	9,514
Interest income		(172)	(287)	(398)
Loss/(Gain) on disposal of investment		672	(238)	-
Gain on disposal of property, plant and equipment		(457)	(45)	(99)
Property, plant and equipment written off		-	24	-
Operating profit before working capital changes		15,447	60,165	59,627
(Increase)/Decrease in inventories		(10,307)	11,209	(9,762)
Increase in trade and other receivables		(29,549)	(74,224)	(39,437)
Increase/(Decrease) in trade and other payables		3,864	36,312	(5,347)
Increase in amount due by immediate holding company		-	-	(231)
Increase/(Decrease) in amount due to ultimate holding company		29,201	163,187	(58,397)
(Increase)/Decrease in amount owing by related companies		(16,278)	(7,075)	73,724
Decrease in amount owing by a subsidiary		835	993	-
<b>CASH (FOR)/FROM OPERATIONS</b>		<b>(6,787)</b>	<b>190,567</b>	<b>20,177</b>
Tax paid		(5,831)	(2,090)	(1,600)
<b>NET CASH (FOR)/FROM OPERATING ACTIVITIES CARRIED FORWARD</b>		<b>(12,618)</b>	<b>188,477</b>	<b>18,577</b>

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PETRA RESOURCES (CONT'D)

## 7.2.3 CASH FLOW STATEMENTS OF PETRA RESOURCES (CONT'D)

	Note	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
NET CASH (FOR)/FROM OPERATING ACTIVITIES BROUGHT FORWARD		(12,618)	188,477	18,577
CASH FLOWS FOR INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment		19,996	1,136	387
Purchase of property, plant and equipment	7.2.28	(16,796)	(158,820)	(7,798)
Withdrawal of fixed deposits		(140)	(48)	1,197
Investment in unit trust		(10,460)	-	-
Proceeds from disposal of unit trust		5,328	4,698	-
Interest income		172	287	398
NET CASH FOR INVESTING ACTIVITIES		(1,900)	(152,747)	(5,816)
CASH FLOWS FOR FINANCING ACTIVITIES				
Repayment of finance lease payables		(8)	-	-
Repayment of hire purchase payables		(236)	(205)	(268)
Drawdown of revolving credit		-	-	7,000
Dividend paid		(5,127)	(7,603)	(8,957)
Interest expense		(204)	(7,889)	(9,514)
NET CASH FOR FINANCING ACTIVITIES		(5,575)	(15,697)	(11,739)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(20,093)	20,033	1,022
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		30,142	10,049	30,082
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	7.2.29	10,049	30,082	31,104

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.4 STATEMENTS OF CHANGES IN EQUITY OF PETRA RESOURCES**

	Note	Share Capital RM'000	Retained Profits RM'000	Total RM'000
Balance at 1.1.2004		8,000	38,316	46,316
Profit after taxation for the financial year		-	8,269	8,269
Dividend	7.2.30	-	(5,127)	(5,127)
Balance at 31.12.2004/1.1.2005		8,000	41,458	49,458
Profit after taxation for the financial year		-	23,183	23,183
Dividend	7.2.30	-	(16,560)	(16,560)
Balance at 31.12.2005/1.1.2006		8,000	48,081	56,081
Profit after taxation for the financial year		-	25,717	25,717
Balance at 31.12.2006		8,000	73,798	81,798

**7.2.5 REVENUE**

Revenue earned from the sale of the Petra Resources' products and services is recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance.

**7.2.6 OTHER OPERATING INCOME**

	2004 RM'000	2005 RM'000	2006 RM'000
Fixed deposit interest income	172	287	398
Gain on foreign exchange - realised	-	252	1,126
Gain on foreign exchange - unrealised	-	152	-
Gain on disposal of property, plant and equipment	457	45	99
Gain on disposal of investment	-	238	-
Rental income	-	70	64
Other income received	384	1,079	1,556
	<b>1,013</b>	<b>2,123</b>	<b>3,243</b>

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PETRA RESOURCES (CONT'D)

## 7.2.7 FINANCE COSTS

	2004 RM'000	2005 RM'000	2006 RM'000
Bank charges	384	947	560
Letter of credit and trust receipts charges	84	25	16
Interest expense:			
- bank overdrafts	3	20	-
- hire purchase payables	55	47	40
- leases	2	-	-
- revolving credit	144	108	81
- inter-company	-	7,714	9,393
	<u>672</u>	<u>8,861</u>	<u>10,090</u>

## 7.2.8 PROFIT BEFORE TAXATION

	2004 RM'000	2005 RM'000	2006 RM'000
Profit before taxation is arrived at after charging:-			
Allowance for doubtful debts	-	7,478	-
Auditors' remuneration:			
- current	71	86	91
- other fee	2	-	1
Bad debt	-	555	109
Depreciation of property, plant and equipment	3,280	12,477	14,183
Directors' remuneration	906	1,344	1,780
Hire of equipment	805	7,988	8,724
Loss on foreign exchange - unrealised	32	-	295
Loss on foreign exchange - realised	199	39	-
Property, plant and equipment written off	-	24	-
Rental of premises	1,181	1,682	1,179
	<u>1,181</u>	<u>1,682</u>	<u>1,179</u>

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PETRA RESOURCES (CONT'D)

## 7.2.9 TAXATION

	2004 RM'000	2005 RM'000	2006 RM'000
Malaysian income tax			
- for the current financial year	3,929	106	175
- under/(over)provision in the previous financial year	7	(19)	(7)
	<u>3,936</u>	<u>87</u>	<u>168</u>
Deferred taxation			
- for the current financial year	(278)	9,014	10,255
- (over)/underprovision in the previous financial year	(7)	(426)	178
	<u>(285)</u>	<u>8,588</u>	<u>10,433</u>
	<u>3,651</u>	<u>8,675</u>	<u>10,601</u>

A reconciliation of income tax expense applicable to the profit for the financial year at the statutory tax rate to income tax expense at the effective tax rate of the Petra Resources is as follows:-

	2004 RM'000	2005 RM'000	2006 RM'000
Profit before taxation	<u>11,920</u>	<u>31,858</u>	<u>36,318</u>
Tax at the statutory tax rate of 28%	3,337	8,920	10,169
Tax effects of:-			
Non-taxable gains	-	(66)	(64)
Non-deductible expenses	303	266	325
Dividend income received from unit trust fund	11	-	-
(Over)/Underprovision of deferred tax liability in prior years	(7)	(426)	178
Under/(Over)provision of taxation in prior years	7	(19)	(7)
	<u>3,651</u>	<u>8,675</u>	<u>10,601</u>

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.10 INVESTMENT IN A SUBSIDIARY**

	2004 RM'000	2005 RM'000	2006 RM'000
Unquoted shares, at cost	454	454	454
Less: Impairment loss	-	(454)	(454)
Transfer to ultimate holding company	-	-	(#)
	<b>454</b>	<b>#</b>	<b>-</b>

# - RM1.

Details of the subsidiary are as follows:-

Name of Company	County of Incorporation	Effective Equity Interest 2004/2005	Principal Activities
Petra Resources (S) Pte. Ltd.	Singapore	100%	Supply of engineered equipment for the oil and gas industry.

During the financial year, Petra Perdana Berhad, the ultimate holding company has completed the implementation of internal reorganisation which involved Petra Resources. The entire equity interest in the subsidiary was transferred to the ultimate holding company for a total cash consideration of RM1.

**7.2.11 PROPERTY, PLANT AND EQUIPMENT**

Net Book Value	At 1.1.2006 RM'000	Additions RM'000	Disposals/ Write-off RM'000	Reclassifications/ Transfers RM'000	Depreciation Charge RM'000	At 31.12.2006 RM'000
Vessels	129,296	840	(83)	4	(6,459)	123,598
Leasehold land	1,108	-	-	-	(31)	1,077
Leasehold building	1,631	-	-	-	(69)	1,562
Plant and machinery	1,856	-	-	(4)	(600)	1,252
Cabin, field and workshop equipment	18,411	5,681	(43)	-	(5,488)	18,561
Motor vehicles	692	1,292	-	(8)	(427)	1,549
Furniture, fittings and office equipment	754	209	(8)	-	(329)	626
Others	1,691	631	(1)	-	(780)	1,541
	<b>155,439</b>	<b>8,653</b>	<b>(135)</b>	<b>(8)</b>	<b>(14,183)</b>	<b>149,766</b>

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PETRA RESOURCES (CONT'D)

## 7.2.11 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Net Book Value	At 1.1.2005 RM'000	Additions RM'000	Disposals/ Transfers RM'000	Depreciation Charge RM'000	At 31.12.2005 RM'000
Vessels	-	135,030	-	(5,734)	129,296
Leasehold land	1,138	-	-	(30)	1,108
Leasehold building	2,054	-	(302)	(121)	1,631
Plant and machinery	2,657	-	(9)	(792)	1,856
Cabin, field and workshop equipment	2,157	21,250	(739)	(4,257)	18,411
Motor vehicles	363	729	-	(400)	692
Furniture, fittings and office equipment	556	609	(24)	(387)	754
Others	834	1,654	(41)	(756)	1,691
	9,759	159,272	(1,115)	(12,477)	155,439

Net Book Value	At 1.1.2004 RM'000	Additions RM'000	Written off/ Disposals RM'000	Depreciation Charge RM'000	At 31.12.2004 RM'000
Vessels	-	16,527	(16,527)	-	-
Freehold land	3,008	-	(3,008)	-	-
Leasehold land	1,168	-	-	(30)	1,138
Leasehold building	2,200	-	-	(146)	2,054
Plant and machinery	3,445	4	-	(792)	2,657
Cabin, field and workshop equipment	2,855	133	-	(831)	2,157
Motor vehicles	718	-	-	(355)	363
Furniture, fittings and office equipment	1,018	27	(2)	(487)	556
Others	1,370	105	(2)	(639)	834
	15,782	16,796	(19,539)	(3,280)	9,759

At 31.12.2006	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Vessels	135,795	(12,197)	123,598
Leasehold land	1,274	(197)	1,077
Leasehold building	2,288	(726)	1,562
Plant and machinery	7,895	(6,643)	1,252
Cabin, field and workshop equipment	30,034	(11,473)	18,561
Motor vehicles	3,342	(1,793)	1,549
Furniture, fittings and office equipment	3,270	(2,644)	626
Others	6,939	(5,398)	1,541
	190,837	(41,071)	149,766

Horwath Offices in Malaysia:

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.11 PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
At 31.12.2005			
Vessels	135,030	(5,734)	129,296
Leasehold land	1,274	(166)	1,108
Leasehold building	2,288	(657)	1,631
Plant and machinery	7,903	(6,047)	1,856
Cabin, field and workshop equipment	24,396	(5,985)	18,411
Motor vehicles	2,886	(2,194)	692
Furniture, fittings and office equipment	3,222	(2,468)	754
Others	6,451	(4,760)	1,691
	<b>183,450</b>	<b>(28,011)</b>	<b>155,439</b>

	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
At 31.12.2004			
Leasehold land	1,274	(136)	1,138
Leasehold building	2,852	(798)	2,054
Plant and machinery	7,919	(5,262)	2,657
Cabin, field and workshop equipment	5,558	(3,401)	2,157
Motor vehicles	2,242	(1,879)	363
Furniture, fittings and office equipment	2,919	(2,363)	556
Others	5,416	(4,582)	834
	<b>28,180</b>	<b>(18,421)</b>	<b>9,759</b>

The property, plant and equipment acquired under hire purchase and lease terms were carried at a total net book value of:-

	2004 RM'000	2005 RM'000	2006 RM'000
Motor vehicles	<b>158</b>	<b>447</b>	<b>1,355</b>

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.12 OTHER INVESTMENT**

	2004 RM'000	2005 RM'000	2006 RM'000
Unit trust			
- At cost	4,460	-	-
- At market value	4,687	-	-

**7.2.13 INVENTORIES**

	2004 RM'000	2005 RM'000	2006 RM'000
At costs:-			
Finished goods	3,307	3,807	3,695
Work-in-progress	19,175	12,129	19,068
Goods-in-transit	7,443	3,085	4,917
Raw materials	838	235	273
Consumables	50	348	1,413
	30,813	19,604	29,366

**7.2.14 TRADE RECEIVABLES**

	2004 RM'000	2005 RM'000	2006 RM'000
Trade receivables	42,679	134,625	176,008
Allowances for doubtful debts	-	(7,478)	(7,478)
	42,679	127,147	168,530

Petra Resources' normal trade credit terms range from 30 to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

Included in gross trade receivables is an amount of approximately RM7.4 million which related to income recognised in FY 2003 on disputed unit of measurement of work completed. Specific allowance for the full amount had been made in respect of this amount.

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.14 TRADE RECEIVABLES (CONT'D)**

The foreign currency exposure profile of the trade receivables is as follows:-

	2004 RM'000	2005 RM'000	2006 RM'000
United States Dollar	8,641	16,041	21,049
Singapore Dollar	6	13,907	48
Brunei Dollar	25	-	133
Pound Sterling	292	483	295
Euro	-	193	167

The trade receivables ageing analysis for the FY 2006 is set out below:-

	0 to 30 Days RM'000	31 to 60 Days RM'000	61 to 90 Days RM'000	> 90 Days RM'000	Total RM'000
Balance as at 31.12.2006	101,636	21,000	7,268	38,626	168,530
% of trade receivables	60.3	12.5	4.3	22.9	100.0

**7.2.15 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

Included in other receivables, deposits and prepayments in FY 2004 was an amount of approximately RM14,375,000 in respect of deposits paid for the acquisition of vessels. The acquisition was subsequently completed in FY 2005.

**7.2.16 AMOUNT OWING BY IMMEDIATE HOLDING COMPANY**

The immediate holding company is Petra Energy Berhad (formerly known as Portfolio Hitech Sdn Bhd), a public limited liability company incorporated and domiciled in Malaysia.

The amount owing was unsecured, interest-free and not subject to fixed terms of repayment.

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.17 AMOUNT OWING BY SUBSIDIARY**

	2004 RM'000	2005 RM'000	2006 RM'000
Non-trade balance	1,647	654	109
Impairment loss	-	(555)	(109)
	<u>1,647</u>	<u>99</u>	<u>-</u>

The amounts owing were unsecured, interest-free and not subject to fixed terms of repayment.

**7.2.18 AMOUNT OWING BY/(TO) RELATED COMPANIES**

The amounts owing were unsecured, interest-free and not subject to fixed terms of repayment.

**7.2.19 FIXED DEPOSITS WITH LICENSED BANK**

	2004 RM'000	2005 RM'000	2006 RM'000
Fixed deposits pledged to banks for banking facilities granted to the Company	<u>1,469</u>	<u>1,517</u>	<u>321</u>

The effective interest rates per annum for fixed and short term deposits with licensed banks and financial institution of the Petra Resources are as follows:-

	2004	2005	2006
Effective interest rates	<u>2.20% to 3.70%</u>	<u>2.50% to 3.70%</u>	<u>2.40% to 3.70%</u>

All deposits have maturity terms of less than one year.



**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.20 SHARE CAPITAL**

	2004 RM'000	2005 RM'000	2006 RM'000
<b>AUTHORISED:-</b>			
10,000,000 ordinary shares of RM1 each	10,000	10,000	10,000
<b>ISSUED AND FULLY PAID-UP:-</b>			
8,000,000 ordinary shares of RM1 each	8,000	8,000	8,000

**7.2.21 RETAINED PROFITS**

Subject to agreement with the tax authorities, at the balance sheet date, Petra Resources has:-

- tax-exempt income of approximately RM488,000 available for the purpose of paying tax-exempt dividends in the Relevant Financial Periods; and
- tax credits under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends of approximately RM36.1 million and approximately RM41.0 million in FY 2006 and FY 2005, respectively out of its entire retained profits without incurring any additional tax liabilities. The balance of the retained profits of approximately RM37.7 million and approximately RM7.1 million in FY 2006 and FY 2005 respectively, if distributed as dividends, will incur additional tax payments. In FY 2004, the entire retained profits are distributable by way of dividends without incurring any additional tax liabilities.

**7.2.22 TRADE PAYABLES**

The normal trade credit terms granted to Petra Resources range from 30 to 60 days.

The foreign currency exposure profile of trade payables is as follows:-

	2004 RM'000	2005 RM'000	2006 RM'000
United States Dollar	8,641	15,884	4,012
Singapore Dollar	1,834	1,417	468
Brunei Dollar	6	53	70
Pound Sterling	507	93	106
Euro	57	195	139
Australia Dollar	-	251	449
New Zealand Dollar	-	5	8

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.22 TRADE PAYABLES (CONT'D)**

The trade payables ageing analysis for the FY 2006 is set out below:-

	0 to 30 Days RM'000	31 to 60 Days RM'000	61 to 90 Days RM'000	> 90 Days RM'000	Total RM'000
Balance as at 31.12.2006	18,712	10,139	3,233	3,409	35,493
% of trade payables	52.7	28.6	9.1	9.6	100.0

**7.2.23 OTHER PAYABLES AND ACCRUALS**

	2004 RM'000	2005 RM'000	2006 RM'000
Other payables	807	2,505	1,583
Accruals	1,914	8,098	13,193
Dividend payable	-	8,957	-
	2,721	19,560	14,776

**7.2.24 AMOUNT OWING TO ULTIMATE HOLDING COMPANY**

The ultimate holding company is Petra Perdana Berhad, a public limited liability company incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

	2004 RM'000	2005 RM'000	2006 RM'000
Interest-bearing balances	-	169,299	141,973
Non interest-bearing balances	70,132	64,020	32,949
	70,132	233,319	174,922

The amount owing was unsecured, interest-free and not subject to fixed terms of repayment.

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Johor Bahru • Klang • Kota Kinabalu • Kuala Lumpur • Kuching • Labuan • Melaka • Penang

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



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PETRA RESOURCES (CONT'D)

## 7.2.24 AMOUNT OWING TO ULTIMATE HOLDING COMPANY (CONT'D)

The interest-bearing balances bear interest at commercial rates which vary according to the cost of funds of certain reference banks. The effective interest rates per annum are as follow:-

	2004	2005	2006
Effective interest rates	-	4.05% to 5.79%	5.40% to 6.85%

## 7.2.25 HIRE PURCHASE PAYABLES

	2004 RM'000	2005 RM'000	2006 RM'000
Future minimum hire purchase payments	206	473	1,148
Less: Future finance charges	(43)	(63)	(150)
Present value of hire purchase payables	<u>163</u>	<u>410</u>	<u>998</u>

Present value of hire purchase payables are payable as follows:-

Not later than one year	143	130	288
Later than one year and not later than five years	20	280	710
	<u>163</u>	<u>410</u>	<u>998</u>

The hire purchase payables at the balance sheet date were subject to interest at rates ranging from 2.80% to 5.90% per annum.

## 7.2.26 SHORT-TERM BANK BORROWINGS

	2004 RM'000	2005 RM'000	2006 RM'000
Revolving credit	-	-	7,000

The weighted average effective interest rates per annum as at 31 December 2006 for the revolving credit was 5.12% per annum.

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**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.27 DEFERRED TAXATION**

	2004 RM'000	2005 RM'000	2006 RM'000
Balance at 1 January	778	493	9,080
Recognised in the income statement	(285)	8,588	10,433
Balance at 31 December	<u>493</u>	<u>9,081</u>	<u>19,513</u>

The deferred taxation is mainly in respect of accelerated capital allowances.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amount, determined after appropriate offsetting, is shown in the balance sheet:-

	2004 RM'000	2005 RM'000	2006 RM'000
Deferred tax assets	-	(5,097)	(83)
Deferred tax liabilities	493	14,178	19,596
	<u>493</u>	<u>9,081</u>	<u>19,513</u>

The component of deferred tax assets and liabilities at the end of the financial year are as follows:-

	2004 RM'000	2005 RM'000	2006 RM'000
Deferred tax assets:-			
Unabsorbed capital allowances	-	(5,097)	-
Deferred tax liabilities:-			
Accelerated capital allowances	493	14,136	19,596
Others	-	42	(83)
	<u>493</u>	<u>9,081</u>	<u>19,513</u>

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Johor Bahru • Klang • Kota Kinabalu • Kuala Lumpur • Kuching • Labuan • Melaka • Penang

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.28 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

	2004 RM'000	2005 RM'000	2006 RM'000
Cost of property, plant and equipment purchased	16,796	159,272	8,653
Amount financed through hire purchase	-	(452)	(855)
Cash disbursed for the purchase of property, plant and equipment	<u>16,796</u>	<u>158,820</u>	<u>7,798</u>

**7.2.29 CASH AND CASH EQUIVALENTS**

For the purpose of the cash flow statements, cash and cash equivalents comprise the following:-

	2004 RM'000	2005 RM'000	2005 RM'000
Cash in hand and at bank	4,515	13,943	16,374
Fixed deposits with licensed banks	7,003	17,656	15,051
	<u>11,518</u>	<u>31,599</u>	<u>31,425</u>
Less: Fixed deposits on lien	(1,469)	(1,517)	(321)
	<u>10,049</u>	<u>30,082</u>	<u>31,104</u>



**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.30 DIVIDEND**

	2004 RM'000	2005 RM'000	2006 RM'000
First interim dividend of:			
- 100% less tax 28%	-	5,760	-
- 89% less tax 28%	5,127	-	-
- 97% less tax 28%	-	-	-
Second interim dividend of 32% less tax 28%	-	1,843	-
Third interim dividend of 155.5% less tax 28%	-	8,957	-
	<u>5,127</u>	<u>16,560</u>	<u>-</u>

**7.2.31 EMPLOYEE INFORMATION**

	2004	2005	2006
Staff costs (RM'000)	14,182	10,655	14,876
Number of employees	<u>346</u>	<u>1,550</u>	<u>2,166</u>

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.32 SIGNIFICANT RELATED PARTY TRANSACTIONS**

	2004 RM'000	2005 RM'000	2006 RM'000
Purchases from subsidiary	1,748	1,327	-
Purchases from related companies	12,861	63,424	83,711
Sales to related companies	74	143	5,559
Rental received from related company	-	70	64
Rental paid to ultimate holding company	-	-	107
Sub-contract from related company	-	982	1,519
Loan interest and charges to ultimate holding company	-	7,714	9,393
Management fee to ultimate holding company	3,240	3,240	3,240

Transactions entered into with the holding company's substantial shareholder's companies are as follows:-

	2004 RM'000	2005 RM'000	2006 RM'000
Rental paid to KNS Property Sdn. Bhd.	366	366	214
Subcontracted to Damai Teknik Sdn. Bhd.	957	210	653

The directors of Petra Resources are of the opinion that the above transactions have been entered in the normal course of business.

**16. ACCOUNTANTS' REPORT (Cont'd)****7. AUDITED FINANCIAL STATEMENTS (CONT'D)****7.2 PETRA RESOURCES (CONT'D)****7.2.33 FOREIGN EXCHANGE RATES**

The principal closing exchange rates used (expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent) for the translation of foreign currency balances at the balance date were as follows:-

	2004 RM	2005 RM	2006 RM
United States Dollar	3.8000	3.7800	3.5325
Euro	5.1729	4.4830	4.6525
Pound Sterling	7.3169	6.1570	6.9295
Australia Dollar	2.9589	2.7680	2.7925
Singapore Dollar	2.3223	2.2703	2.2998
Brunei Dollar	2.3223	2.2705	2.3072
New Zealand Dollar	-	2.5845	2.4905

**7.2.34 FINANCIAL INSTRUMENTS**

Petra Resources' activities expose it to a variety of financial risk, including foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk arising in the normal course of Petra Resources' businesses.

The directors monitor Petra Resources' financial position closely with an objective to minimise potential adverse effects on the financial performance of Petra Resources. The directors review and agree on policies for managing each of these risks and they are summarised below:-

**(a) Foreign currency exchange risk**

Petra Resources is exposed to currency risk as a result of the foreign currency transactions entered into by Petra Resources in currencies other than its functional currency.

**(b) Interest rate risk**

Petra Resources is exposed to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

Petra Resources' income and operating cash flows are substantially independent of changes in market interest rates. Exposure to changes in interest rate risk relates primarily to Petra Resources' fixed deposits, bank overdraft and bank borrowings.



**7. AUDITED FINANCIAL STATEMENTS (CONT'D)**

**7.2 PETRA RESOURCES (CONT'D)**

**7.2.34 FINANCIAL INSTRUMENTS (CONT'D)**

**(b) Interest rate risk (Cont'd)**

Fixed deposits generate interest income based on prevailing market rates. Petra Resources manages its interest rate risk by placing such deposits on short tenures of less than one year.

Petra Resources minimises its interest rate risk by borrowing as far as possible at a floating rate which varies according to changes in market interest rates. This has enabled Petra Resources to take advantage of cheaper funding during a low interest rate environment.

**(c) Credit risk**

Petra Resources seeks to invest cash assets safely and profitably. Its also seeks to control credit risks by setting appropriate credit terms and limits for customers and ensuring that sales of products are made to customers with good credit assessment.

Petra Resources has a major concentration of credit risk related to 3 major customers that constitute 41% to 85% of total receivables over the Relevant Financial Periods.

Petra Resources manages these risks by monitoring credit ratings.

**(d) Liquidity and cash flow risk**

Petra Resources exercises prudent liquidity risk management to maintain sufficient cash and short term investments and the availability of funding through an adequate amount of credit facilities.

Petra Resources reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

**(e) Fair values**

The carrying amounts of the financial assets and liabilities of Petra Resources at balance sheet date approximate their fair values.

**16. ACCOUNTANTS' REPORT (Cont'd)****8. RECLASSIFICATIONS TO THE AUDITED FINANCIAL STATEMENTS**

In preparing this report, certain reclassifications were made to ensure consistency of presentation of information for comparison purposes. The details of the reclassifications made are set out as follows:-

**8.1 PETRA RESOURCES**

	2004 RM'000	2005 RM'000	2006 RM'000
<b>BALANCE SHEET (EXTRACT)</b>			
<b>(a) Intangible assets</b>			
As per audited financial statements	-	37	-
Reclassification (i)	-	(37)	-
As per Accountants' Report ("AR")	-	-	-
<b>(b) Other receivables, deposits and prepayments</b>			
As per audited financial statements	21,769	4,010	1,855
Reclassification (i)	-	37	-
As per AR	21,769	4,047	1,855

Note:-

- (i) The intangible assets of approximately RM37,000 were reclassified to other receivables, deposits and prepayments to be consistent with the presentation in subsequent financial years.

**9. SUBSEQUENT EVENTS**

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